

A Guide To
**Tax and Trust
Planning**



Protecting Your Family's Assets

Many people, often without realising it, will come into contact with a trust of some sort during their lifetime. Yet trusts are widely misunderstood and often seen as the preserve of the wealthy.

This guide aims to provide a quick overview of how trusts work, what they are most commonly used for and to correct some of the misconceptions held about trusts.

Trusts are becoming a more widespread tool in the search to protect and preserve family assets.

The exact technical details of trusts, how they are set up and taxed vary from client to client, so this guide focuses on some of the broader principles.

This guide will help to outline the use and types of trusts available within the Watermead Trust Planning portfolio as well as their significant Asset Protection Qualities. Our bespoke planning service therefore gives you the peace of mind that the design and implementation of your new Family Trust structure is in the best possible hands.

If you answer yes to any of the below questions, a family trust may be appropriate for you;

- Do you wish to protect some or all of your estate for future generations - e.g grandchildren?
- Are you worried about your children losing their inheritance from you via a marriage breakup or bankruptcy after you are gone?
- Do you wish to protect your assets for your children from a previous marriage?
- Could your estate receive funds from a life insurance or pension policy when you die? Do you wish to ensure they avoid unnecessary Inheritance Tax (IHT)?
- Do you have vulnerable beneficiaries that you wish to protect from creditors, financial abuse, divorce claims or future care fees?
- Would you like to ensure your money doesn't pay Inheritance Tax, possibly for the second time, when your children leave it to your grandchildren?
- If you are not married, do you want to reduce your partner's future Inheritance Tax liability?
- A probated will is a Public document. Do you wish to avoid disclosure of who gets what? A trust ensures this is not public knowledge.

Family Trust Specialists

The main reason to use trusts is to preserve, protect and provide longevity to the estates of individuals. Trusts help to achieve this through two main features:

- 1) The effectiveness of trusts to assist reducing second generation, third generation, and beyond tax liabilities;
- 2) The ability to reduce exposure of assets to social impacts such as divorce, separation and bankruptcy.

Trusts are extremely effective when planning how money and assets should pass from one generation to another, especially when family structures can be complicated by divorces and second marriages. This, coupled with the growing frequency of marriage breakdowns, the increase in personal assets used in long term care costs and the number of individuals now liable to Inheritance Tax on their estates helps illustrate the need for effective trust planning and their rise in popularity.

In the 2014/2015 tax year, HMRC collected **£3.8 billion** in revenue from estates paying Inheritance Tax, a figure which is predicted to steadily rise over the coming years

Some examples of family situations where we have used trusts are:-

- To protect death benefits on life cover policies from Inheritance Tax, probate delays or remarriage of a partner
- To provide for a husband or wife after death while protecting the interests of any children.
- To reduce the liability on the matrimonial home from care fees after the death of a partner/spouse
- To provide a protected Inheritance to children
- To protect gifts to children when assisting them buying a house
- To help succession planning in family businesses

Trusts have been used by families for centuries and are steeped in British history, dating back to Richard Whittington (the real-life inspiration for the pantomime character Dick Whittington), who bequeathed his fortune to trust which, nearly 600 years later, continues today.

Trusts are also common place in everyday life in the UK, for example, most company pension schemes are structured as trusts, as are many charitable organisations.

The type of trust though most relevant to you will be a trust established to arrange your family's financial affairs. This will allow you the significant confidence in knowing how assets will be used in the future as well as maintaining control in the interim. Essentially trusts provide a means of ring-fencing and looking after money, or property, for people who may not be ready or able to manage it for themselves. Trusts can even be created to assist people who are not even born yet i.e. future children, grandchildren or great-grandchildren.

Professional Trust Planning



Until recently, professional Trust Planning was the preserve of the very wealthy. This was due mainly to the lack of experts able to construct the intricate legal documentation required. There was a lack of expertise and knowledge required in advising the appropriate structures and the associated high costs that go hand in hand with rarity. But why do these wealthy people spend so much to create Trust structures? Quite simply, it is for efficient preservation of family wealth, from all manner of deteriorating factors such as taxation, divorce, or simply bad relationships.

70,000

The number of homes recently estimated taken by local authorities to recover Long Term Care costs in a year

At Watermead Trust Planning we are now able to bring this level of planning to a much wider population, through consolidation of in-depth expertise and knowledge in trust planning, aggregating the legal paperwork to specialists in a centralised location thus allowing us economies of scale to bring the costs right down to affordable levels. We can therefore offer access to the establishment of personalised Family Trust Structures without the premium price.

Our Trust Portfolio includes:

- The Beneficiary Protection Plan
- The Education Trust
- The Protective Gifting Trust
- The Legacy Plan
- The Pension Trust
- The Guardianship Trust Fund
- The Protective Property Trust
- The Business Preservation Trust
- The Inheritance Tax Trust (IHT)

All of which provide bespoke estate planning and legacy protection for your families future and generations to come.

Why Choose Watermead Trust Planning?



- ❖ We have substantial knowledge and experience in Trust Planning
- ❖ Significant experience dealing with complex and diverse family situations and estates
- ❖ Chartered Institute of Insurance Trust Qualification – J02 Trusts
- ❖ A co-ordinated point of contact for all your estate planning needs from Personal Wills, Trusts and Lasting Powers Of Attorney to Business Trusts and Cross Option Agreements
- ❖ Peace of mind through the use of professionally drafted documentation
- ❖ Ongoing trustee/estate advice & guidance packages
- ❖ Availability of professional trustees
- ❖ Ability to store all documents safely and securely
- ❖ Offer a confidential, professional and simple trust planning process
- ❖ Complex Family Trust Structures at competitive prices



Protecting Your Money

Finding the Right Trust Structure

One of the rewarding things about accumulating your wealth for the future is knowing that one day it can be passed onto others. Your wealth might be built up from 40 years of work to clear the mortgage on your home, family businesses, property portfolios, savings and investments, or even assets abroad, all of which will require individual considerations for it to pass intact to your loved ones.



At Watermead Trust Planning we work closely with our clients spending time to understand your personal situation, motives and goals for your family in the future. This time and attention to detail ensures that each Family Trust has **YOUR** Family at its heart! It is set up by **YOU** for **YOUR** Family, it is run by **YOUR** Family, for the sole benefit of **YOUR** Family.



We offer a wide variety of different trust structures from helping to reduce your family's potential Inheritance Tax liability, the likelihood of the family home being used to pay for care home costs, to removing delays to life cover proceeds being released.



One of the most popular reason for many of our Family Trust structures being implemented at present is for the protection of assets and legacies from social and domestic risks. With divorce rates projected to reach 50% and the rates of remarriage following the death of a partner sitting at more than 60%, this presents a clear threat to any unprotected legacies that you may leave.



Case Study

What if one of your children goes through divorce?

Consider the following situations:-

A legacy is left to a child totalling **£400,000**; the child subsequently marries and later on divorces. The legacy could be successfully challenged as part of a **50%** divorce settlement resulting in a loss to your legacy of **£200,000**.



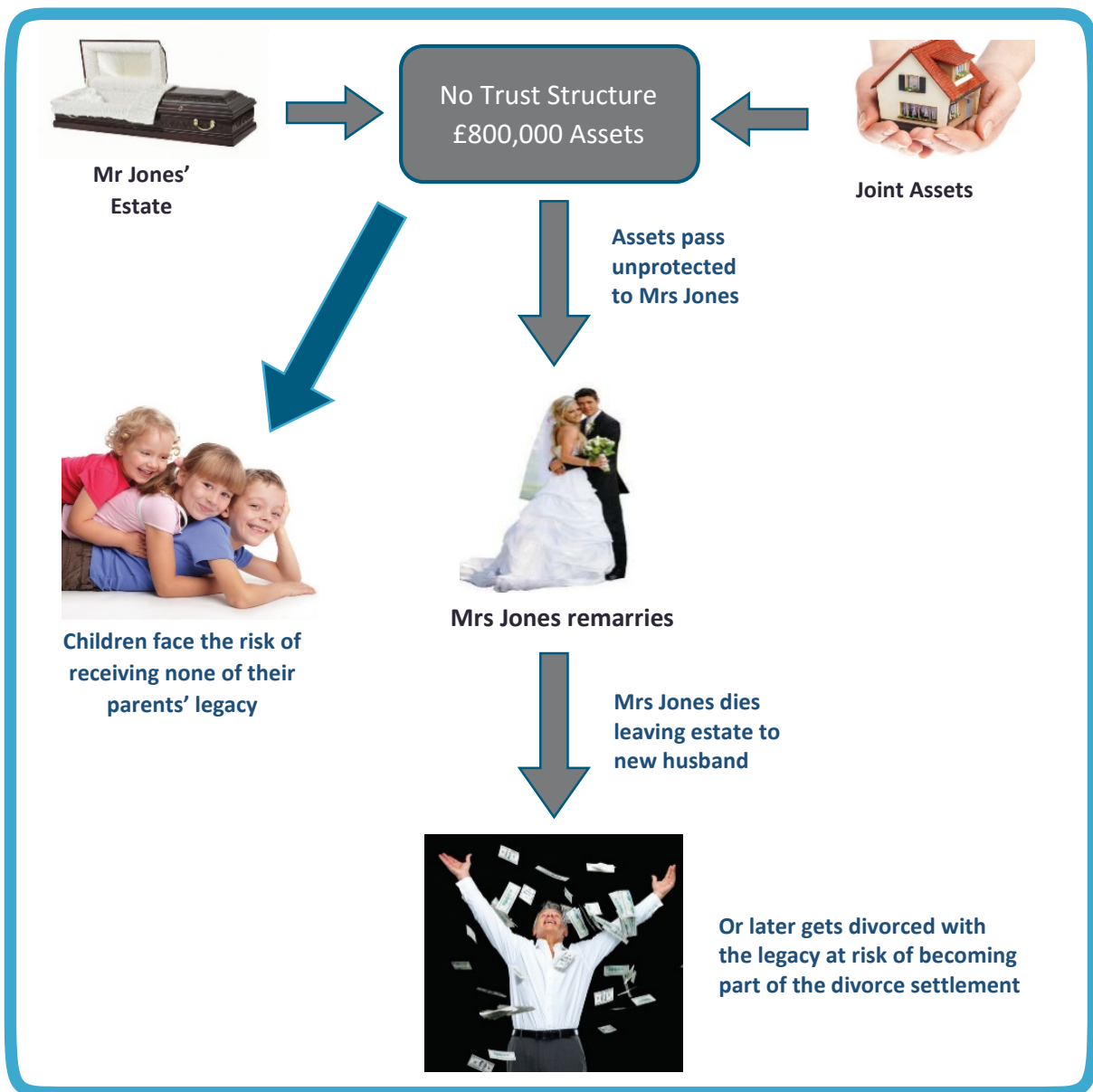
As you can see, social risks can pose even more of a threat than the traditional tax issues and hence the increase in interest in such planning. Through the use of a Watermead Family Trust structure, the legacy would come back into the Family Trust intact, with the **£400,000** available for payment to the son after the divorce was finalised.



Case Study – Mr & Mrs Jones

Consider the following situation where a legacy is left to Mrs Jones with 2 children following the death of Mr Jones, with a total value of **£800,000**.

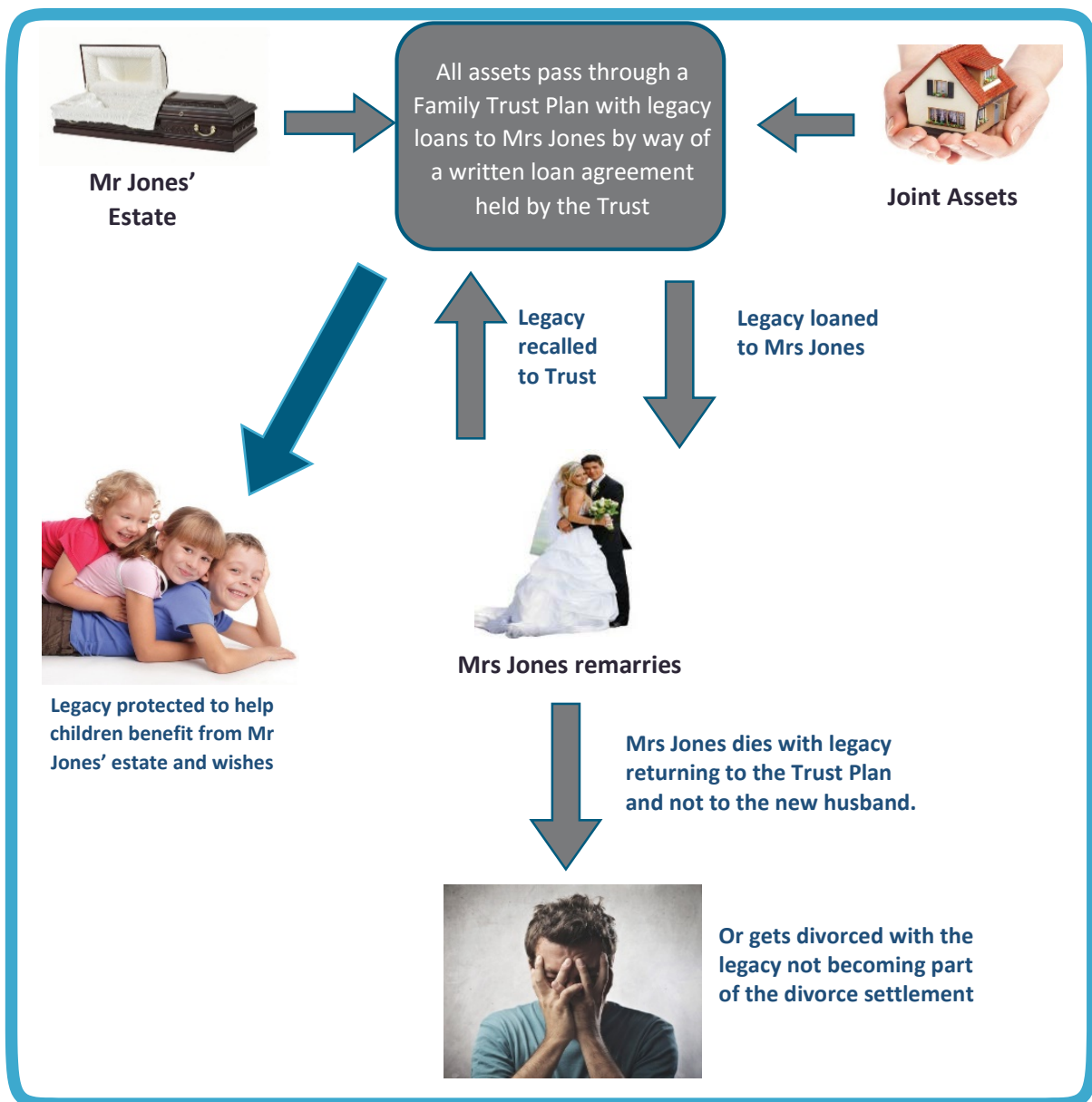
Mrs Jones subsequently remarries but then dies leaving everything to the new husband. Potentially the new husband could walk away with the whole **£800,000** and the 2 children could be left with NOTHING!



Mr & Mrs Jones' Solution

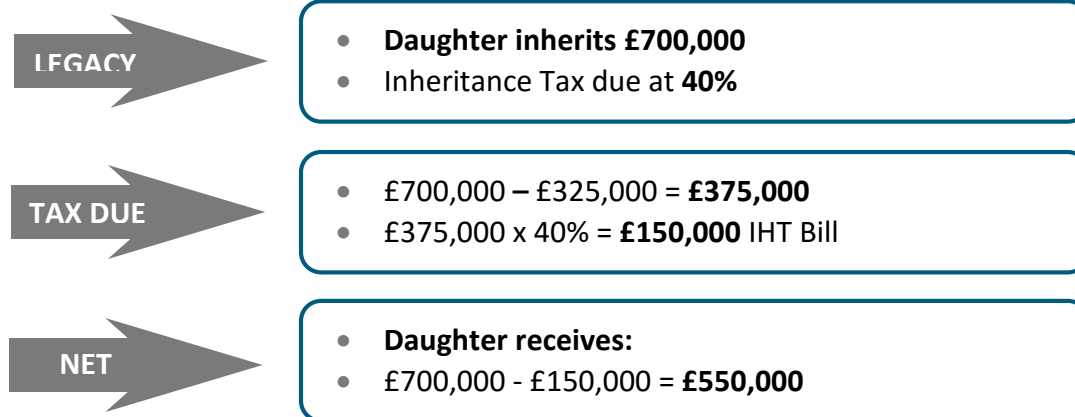
With the benefit of a Family Trust Structure the legacy becomes protected against the social risks and potential disinheritance of the children.

Whether it be through death or subsequent divorce of Mrs Jones, under this example the Family Trust would look to recall the legacy. This would help to ensure its bloodline protection, passing it on to support the children which no doubt would have been Mr Jones' dying wish.

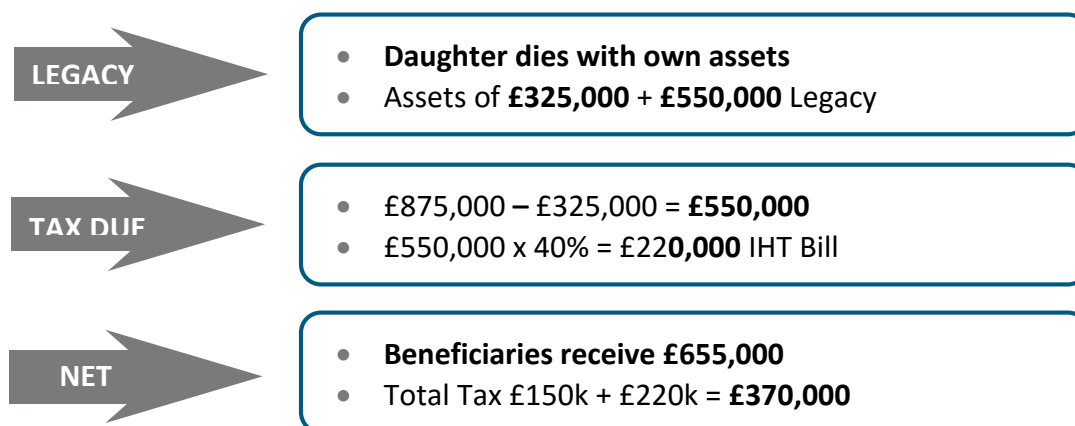


Consider... The Double Inheritance Tax Trap

A parent leaves a legacy to their daughter of **£700,000** (assuming all allowances used). Following the deduction of Inheritance Tax the daughter benefits from a **£550,000** legacy.



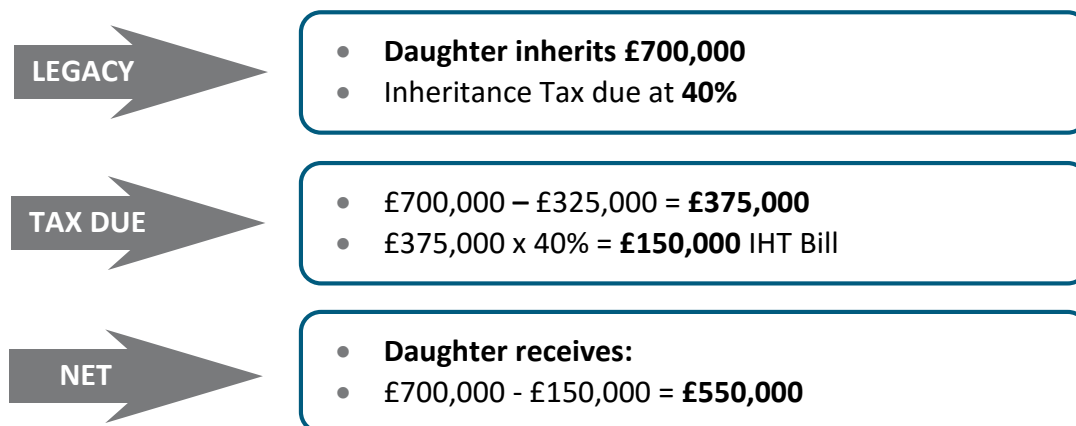
In the unfortunate event that the daughter subsequently dies and is single with assets in her own right totalling **£325,000**, then the above legacy is subject to Inheritance Tax for a second time depleting the estate by a further **£220,000**.



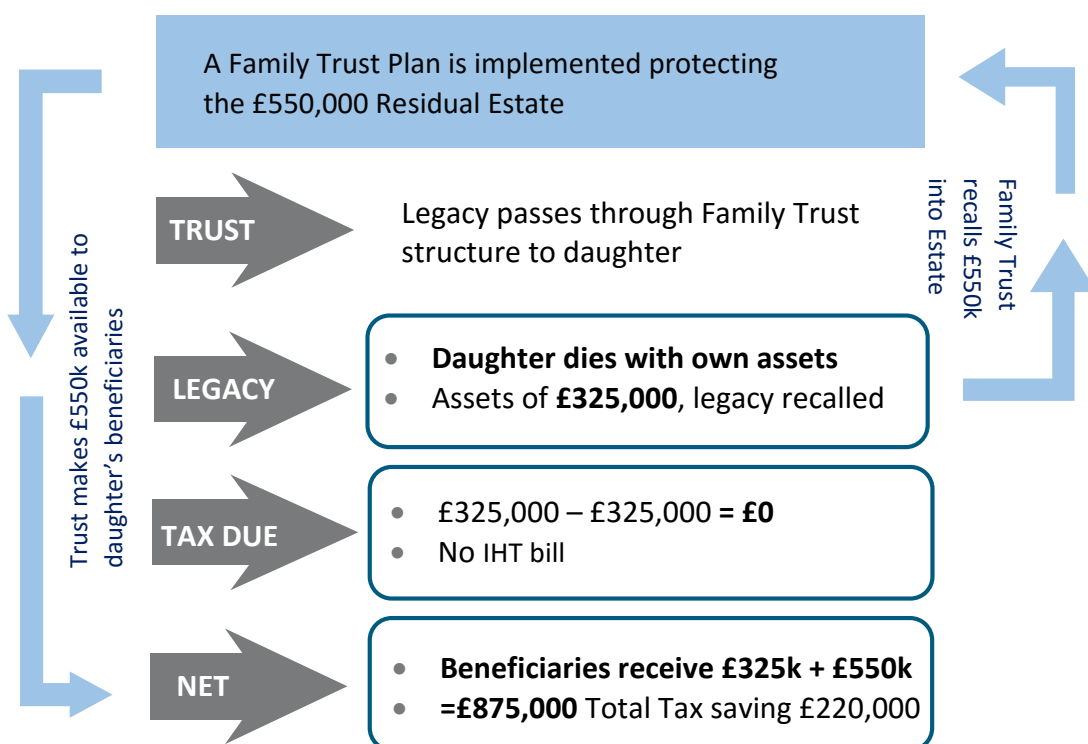
Without the benefit of effective Legacy Planning the original £700,000 inheritance has seen a reduction of £370,000 in tax. That's over 50% after only having passed down one additional generation.

Solution

As you will see below, the potential benefits in effective Will writing combined with a Family Trust structure can provide significant future generational tax planning. Considering the same example opposite. Following the deduction of Inheritance Tax, whereby the daughter benefits from a **£550,000** Legacy.



Through the use of a Family Trust structure, the trust has the potential to recall the £550,000 legacy back into the trust on the death of the daughter. This helps to avoid the second incidence of Inheritance Tax, thus saving up to £220,000. Significantly increasing the residual estate to the beneficiaries.



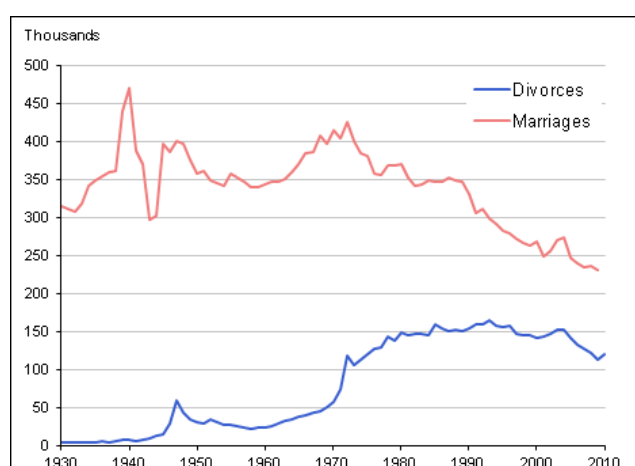
Your Assets & Wills only direct...Trusts Protect!

Don't leave your loved ones with additional complications;

People who die without a valid will, or intestate, leave costs and complications to their loved ones and often lose thousands of pounds to the State in what may be avoidable Inheritance Tax (IHT). The Law Society says that anyone with assets and family or friends should make a will, regardless of their age. It is especially important if you are not married to your partner, because the law does not accord partners the same automatic rights of inheritance as spouses. Under the current intestacy rules, an unmarried partner has no rights to any assets that were not jointly owned. Making a will is also vital if you have children, as you can nominate guardians to care for them.

Many people may be tempted to take the DIY approach with many high-street shops selling "write your own will" packs for about £10. Yet a badly-made Will could land relatives with huge legal fees, dwarfing those charged to draw up a will correctly by a professional. You also miss the opportunity to implement some of the significant estate protection measures that we specialise in.

We can look to protect your residual legacy against the remarriage of your surviving spouse. The value of this legacy could be used towards Long term Care Costs, or protecting your legacy against the divorce, separation or unfortunate death of your children. We can assist in removing the likelihood of your estate being liable to Inheritance Tax twice. All through the effective use of our Trusts.



This Graph shows the steady increase in the number of divorces in England. It also shows that in 2010 an equivalent of half the number of people getting married that year got divorced.

According to estimates from the Office for National Statistics up to 60% of second marriages end in divorce.

At Watermead Trust Planning we recommend that you update your will every two years or so and whenever your circumstances are changed by a significant life event, such as marriage, divorce or a birth or death in the immediate family. Another example would be after a house purchase or move.

Making a Will

How to leave the maximum amount to your family and not the tax man or even someone else's family

Making a Will is integral to any estate planning process...

Why do I need a Will?

The vast majority of people put off making a Will for a variety of reasons, either believing that the people they would wish to inherit will automatically do so, or because they don't think it is relevant to them at this particular time. The reality is that you can put off making a Will until it is too late and this poses all sorts of problems for the people left behind and could mean that some or all of your inheritance either goes to the wrong person or to the state.



Affording you Peace of Mind

Firstly and most importantly is the peace of mind making a Will provides. Making a Will enables you to plan exactly what will happen to your property (estate) following your demise. This ensures that those you would like to benefit actually do so in accordance with your wishes, and at the same time avoiding any possible disputes between relatives.

Who needs to make a Will?

The answer is... everyone.

In particular, anyone with dependant relatives (children under the age of 18, elderly relatives or relatives with a disability who have special needs) and anyone who owns property or has any type of asset which they would wish relatives, friends or charities to benefit from.

But won't everything go to my husband/wife/civil-partner/parents/children etc. automatically?

This is a common misconception and dependant upon the size of your estate, there are set rules which will be applied to determine who inherits and how much they inherit if you do not make a Will.



So what happens if I don't make a Will?

This is called having died intestate. There are specific rules of intestacy which set out who will inherit and by how much if you do not leave a valid will. This may not be what you would have wished and in the worst case scenarios where relatives cannot be traced, your assets will be taken by the Crown.

Protecting your Business

The establishment of Business Trusts as part of your overall estate planning framework is key to protecting *YOUR* business for *YOUR* family.

Business planning for clients requires a combination of specialist legal advice, accountancy advice and financial planning advice.

The estates of the majority of small and medium sized business owners are quite often neglected.

What was once an Inheritance Tax exempt asset via Business Property Relief can suddenly attract 40% tax as it passes down the generations. Worse still, half the business could suddenly belong to a future spouse, or to your children's future spouses!

Common shortfalls include a total lack of bloodline protection planning, no controlled succession planning and the omission of additional legitimate tax planning.



A good accountant will advise you on the best way to set up your business (e.g. sole trader, partnership, limited company) to meet your needs. A good accountant will also help you build the business value up and maximise profit.

Protecting your Business

The Accountant and Financial Planner together will identify shortfalls in your business - The “What happens if?” question:

- What does your family need if something happens to you?
- How do you ensure that your family inherit your share of the business without your business partner closing things down, or devaluing your share of the business?
- What if your children come into the business after you are gone and then go through a divorce?
- How will your business partners cope financially if you pass away?

The Financial Planner will crunch the numbers and recommend the appropriate insurances e.g. shareholder protection, keyman cover.

He will also recommend the appropriate Trusts. The solicitor will arrange the cross

option agreements and ensure that they tie in with your company Articles of Association. With the three working in tandem you can rest assured that your family and business partner/s will be protected as best they can be.

Consider

Mr Bloggs owns Widget & Son Ltd, and dies unexpectedly. Mrs Bloggs decides to sell the business for £500,000. Mrs Bloggs then passes away 2 years later. The children may lose 40% to Inheritance Tax - **that is £200,000 in tax.**

Solution

Mr Bloggs creates a Business Trust during his lifetime. On his demise the business shares pass to the trust. As the shares qualified for Business Property Relief at the time of his death there is no Inheritance Tax to pay.

Mrs Bloggs sells the business for £500,000, and the £500,000 **passes to the Trust.**

Mrs Bloggs receives the £500,000 from the Business Trust, but signs a loan agreement to show she is “borrowing” the money. On Mrs Bloggs’ demise the £500,000 loan is **recalled by the Business Trust, saving £200,000 Inheritance Tax.**

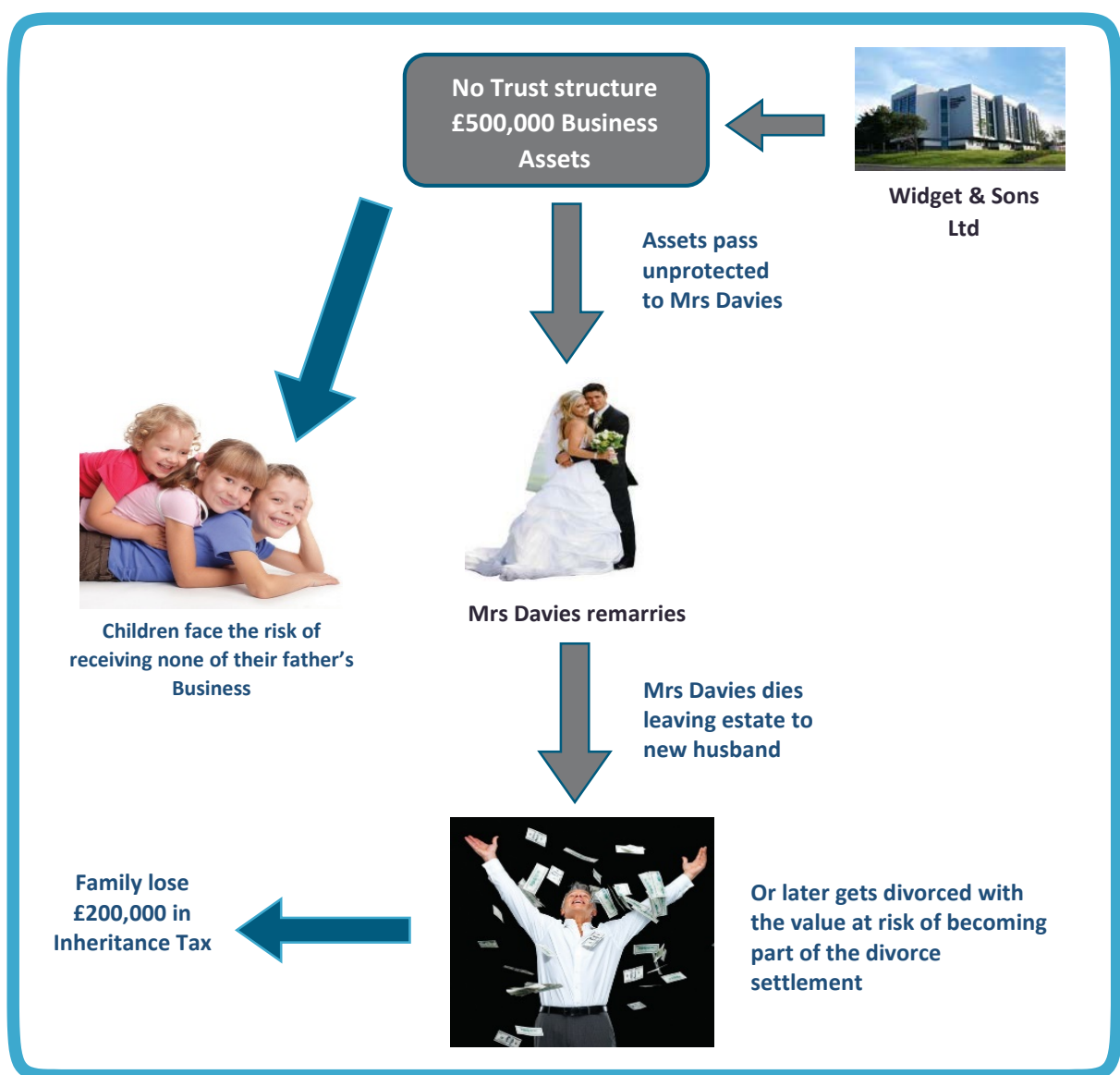
If Mrs Bloggs remarries, her new husband would have no claim on Mr Bloggs’ business value. When the children inherit they will also receive a loan from the Trust. Should they divorce or go bankrupt themselves, their share of the £500,000 will not end up in a future ex-partner’s hands.

Great Family Planning!

Case Study – Mr & Mrs Davies

Consider the following situation where a business is left to Mrs Davies with 2 children following the death of Mr Davies, with a total value of **£500,000**.

Mrs Davies subsequently remarries but then dies leaving everything to the new husband, who could walk away with the whole **£500,000** and the 2 children could be left with **NOTHING!**

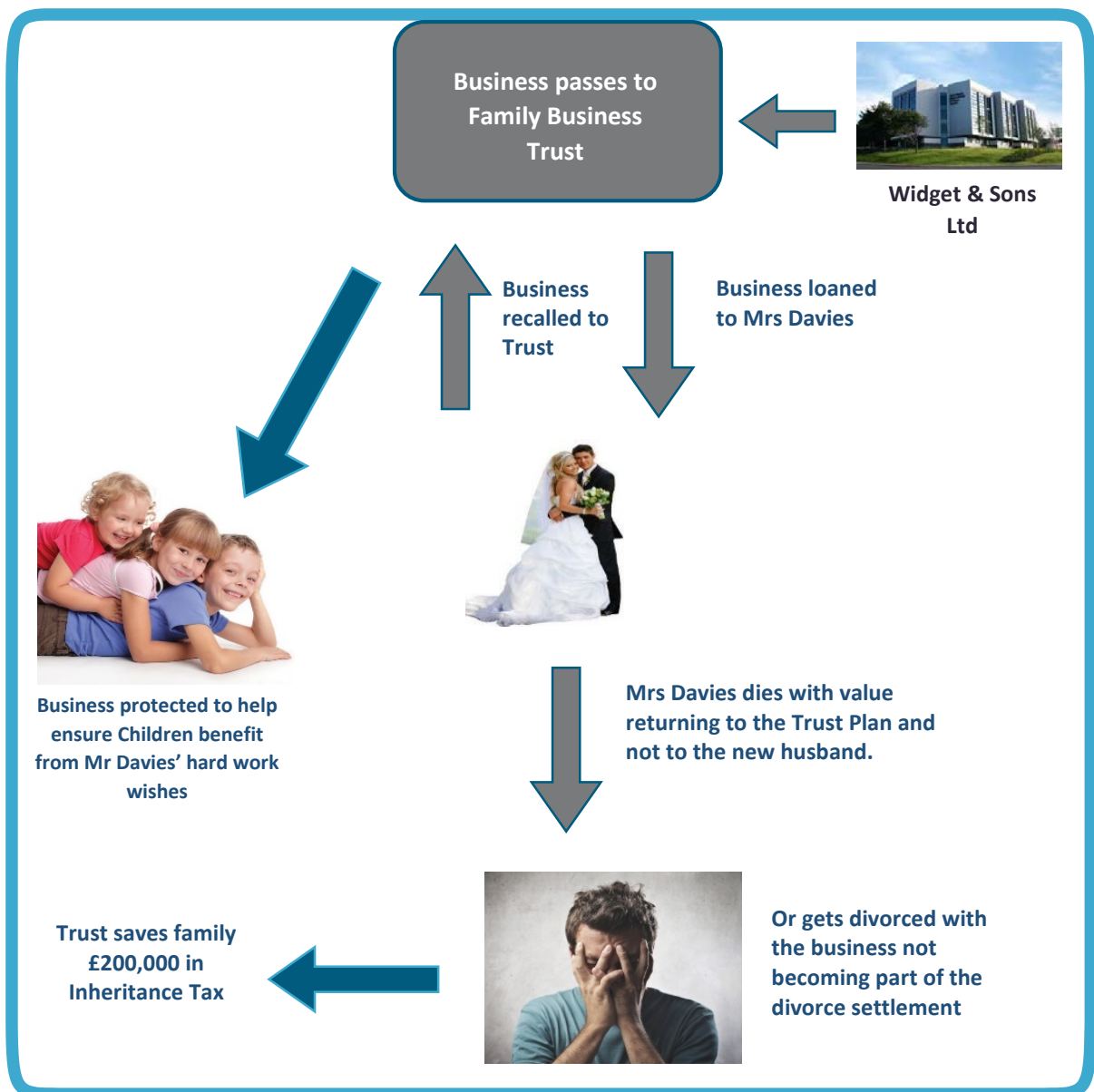


Beware of the risk!

Mr & Mrs Davies' Solution

With the benefit of a Family Trust structure the business becomes protected against the social risks and potential disinheritance of the children.

Whether it be through death or subsequent divorce of Mrs Davies, under this example the Family Trust would look to recall the business value. This would help to ensure its bloodline protection, passing it on to support the children, which no doubt would have been Mr Davies' dying wish.



How to remove the risk and save the Tax

A Typical Solution

Mr Blogg's Will

Family Trust
protecting 50% of
family home

Legacy Trusts
protecting Residual
Estate

Gifting Trusts
protecting Lifetime
Gifts & Children's
Inheritance

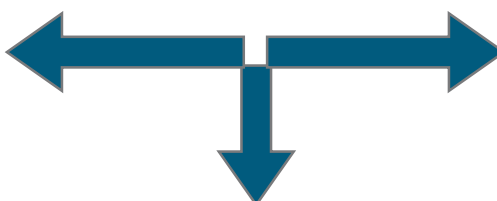
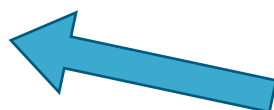
**Pension Policies &
Death in Service
Benefits Policies**

**Life Cover
Policies**

**Business
Assets**



50%



Married Clients

50%



Mrs Blogg's Will

Family Trust
protecting 50% of
family home



Legacy Trusts
protecting Residual
Estate

Gifting Trusts
protecting Lifetime
Gifts & Children's
Inheritance

**Pension Policies &
Death in Service
Benefits Policies**

**Life Cover
Policies**

**Business
Assets**

About Us

"Protecting Wealth, the common sense approach you can trust...."

We pride ourselves in giving unbiased honest advice. You can have confidence in the knowledge and guidance we can offer.

No matter what your estate and trust planning needs, Watermead Trust Planning Ltd are here to help you.

Our flexible approach allows us to provide face to face consultations, conduct business by post or via the worldwide web.

Where the need is identified for regulated financial advice as part of estate planning, the advice is provided via SFA Independent Financial Advisers, www.schoolfeeadviser.co.uk.

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Disclaimer

All statements concerning the tax treatment of trusts, their benefits and protective qualities are based on our understanding of the current law and inland Revenue practice as at the date of publication and does not form personal advice and is for general guidance only. Whilst every effort is made to ensure accuracy, no liability can be accepted for any errors or omissions. Levels and bases of, and reliefs from taxation are subject to change. Tax and Trust Planning is not regulated by the Financial Conduct Authority.

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