Financial Planning
A GUIDE TO
TAX & TRUST PLANNING

watermead
trust planning

42%

of marriages end in divorce

Are your family's assets protected?

Protecting Your Family Assets

Trusts are becoming a widespread tool in the search to protect and preserve family assets. Yet they are widely misunderstood and often seen as the preserve of the wealthy. This guide aims to show how trusts can protect YOUR family.

Do you need a Family Trust?

If any of these situations apply to you, a family trust may be appropriate:

- Protect your estate for future generations - children and grandchildren
- Worried about children losing inheritance through divorce or bankruptcy
- Protect assets for children from a previous marriage
- Ensure life insurance and pension proceeds avoid unnecessary IHT
- Protect vulnerable beneficiaries from creditors or financial abuse
- Keep inheritance private - unlike a probated will, which becomes public
- Avoid IHT being paid twice - once on your estate, then again when your children pass assets to grandchildren
- Unmarried? Reduce your partner's future Inheritance Tax liability

Family Trust Specialists

£8.2bn

Inheritance Tax collected by HMRC

2024/25 tax year - a record high

Trusts have been used by families for centuries. They 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 - including future generations not yet born.

Common situations where trusts help

- Protect Death Benefits
- Provide for Spouse While Protecting Children
- Reduce Care Fee Liability
- Protected Inheritance for Children
- Protect Gifts for House Deposits
- Business Succession Planning

Two key benefits of trusts

1 Tax Efficiency

Reduce second and third generation tax liabilities, helping more of your wealth reach your loved ones.

2 Asset Protection

Shield assets from divorce, separation, bankruptcy and care fee claims.

Professional Trust Planning

6th April 2025

Residence-Based Inheritance Tax

The UK has shifted from domicile-based to residence-based IHT. If you've been UK tax resident for 10 of the last 20 years, your worldwide estate now falls within UK Inheritance Tax.

6th April 2026

Business & Agricultural Property Relief Cap

New £2.5 million cap on 100% relief. Values above this receive only 50% relief, creating an effective 20% IHT rate on the excess.

6th April 2027

Pensions Included in IHT

Unused pension funds will now be included in your taxable estate. Beneficiaries could face combined tax of up to 67% (40% IHT plus income tax).

Key Technical Changes from April 2025

- Settlor-interested trusts are now within relevant property regime for IHT
- Exit charges apply when capital is distributed from the trust
- Those leaving the UK remain subject to IHT for 3-10 years
- 6% periodic charges apply every 10 years on relevant property
- Non-resident trusts with UK settlors face enhanced taxation
- International clients are particularly affected by these changes

> "With average care home fees now exceeding £73,000 per year for residential care and £81,000 for nursing care, and the proportion of people self-funding rising from 41% in 2021 to 65% in 2024, effective trust planning has never been more important"
>
> - Lottie Care Home Costs 2025, ONS Care Homes Report 2024

Our Trust Portfolio includes:

Beneficiary Protection Plan	Education Trust	Protective Gifting Trust
Legacy Plan	Pension Trust	Guardianship Trust Fund
Protective Property Trust	Business Preservation Trust	Inheritance Tax Trust

Important Note on Pension Planning (From April 2027)

Pensions are becoming an increasingly important consideration in trust and estate planning. From 6th April 2027, significant changes will affect how pensions are taxed on death.

Key Details

- Unused pension funds and death benefits will be included in your taxable estate for Inheritance Tax purposes
- Beneficiaries could face combined tax of up to 67% (40% IHT plus income tax) if benefits are inherited after age 75
- Dependants' scheme pensions and benefits left to spouses or civil partners remain exempt from IHT
- Pension Scheme Administrators will be responsible for calculating and paying any IHT due

This represents a fundamental change from the current system where pensions are largely outside the IHT net. Now, more than ever, pension planning must be integrated with overall trust and estate planning to minimise future tax liability.

Why Choose Watermead Trust Planning?

- We have a substantial in-depth knowledge and expertise in Trust Planning
- Significant experience dealing with complex and diverse family situations and estates
- Society of Trust & Estate Practitioners affiliate members (STEP)
- 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 Options Agreements
- An award winning firm
- Peace of mind through the use of professional 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 with Watermead Trust Planning

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 portfolio's, savings & investments, or even assets approach, all of which will require individual considerations for it to pass intact to your loved ones.

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.

But by far the most popular reason for many of our Family Structures being implemented at present is more for the protection of assets and legacies from social and domestic risks. With around 42% of marriages ending in divorce, and over 60% of surviving partners going on to remarry or form new partnerships, this presents a clear threat to any unprotected legacies that you leave.

Protecting Pensions Through Trust Planning

One of the most-tax efficient assets to hold has traditionally been a pension, due to its preferential inheritance tax treatment. However, from 6th April 2027, this advantage will change fundamentally.

Current Position (Until 6th April 2027)

Unused pension pots and death benefits are generally exempt from Inheritance Tax. This has made pensions an attractive estate planning tool. Many individuals have accumulated significant pension wealth with the intention of passing it to their beneficiaries largely tax-free.

From 6th April 2027

Unused pension funds will be included in your taxable estate. If your total estate (including pensions) exceeds the Inheritance Tax threshold of £325,000, the excess will be taxed at 40%.

Example of Impact

An individual dies with:

- Personal assets: £500,000
- Unused pension pot: £400,000
- Total estate: £900,000

Under the current rules (before 6th April 2027), the personal assets would be subject to IHT but the pension would be protected. IHT due: £70,000 (on £175,000 above the £325,000 threshold, at 40%).

Under the new rules (from 6th April 2027), the entire £900,000 would be in the estate. IHT due: £230,000 (on £575,000 above the threshold at 40%). This represents an additional £160,000 tax liability.

Planning Strategies

To protect your pension benefits and minimise inheritance tax exposure, consider:

- Reviewing your retirement spending strategy - using other assets first can reduce the pension pot subject to IHT
- Ensuring pension death benefits are written in trust to maximise control
- Reviewing life insurance strategies held in trust to cover potential IHT liability
- Taking professional advice on your specific pension scheme and beneficiary designations

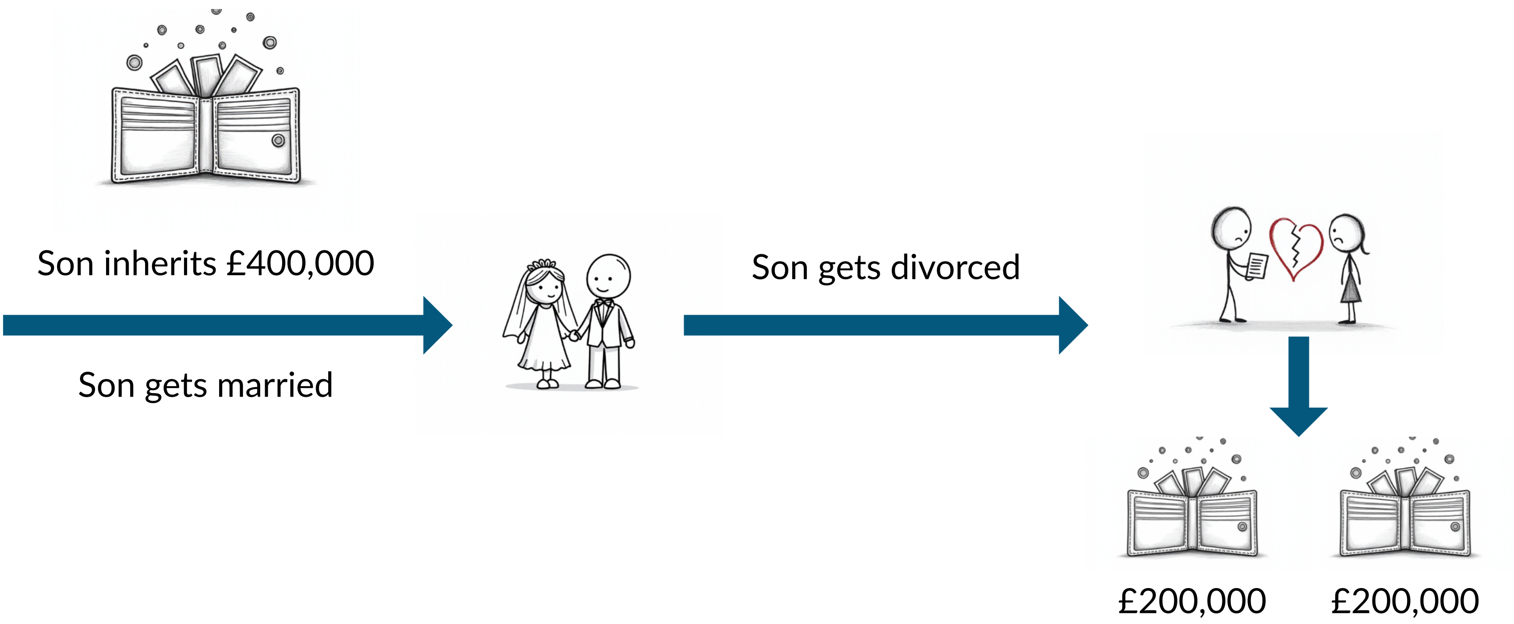
Beneficiaries who inherit pensions after the age 75 face additional income tax charges on top of the 40% Inheritance Tax, potentially created a combined tax rate of up to 67%.

Case Study

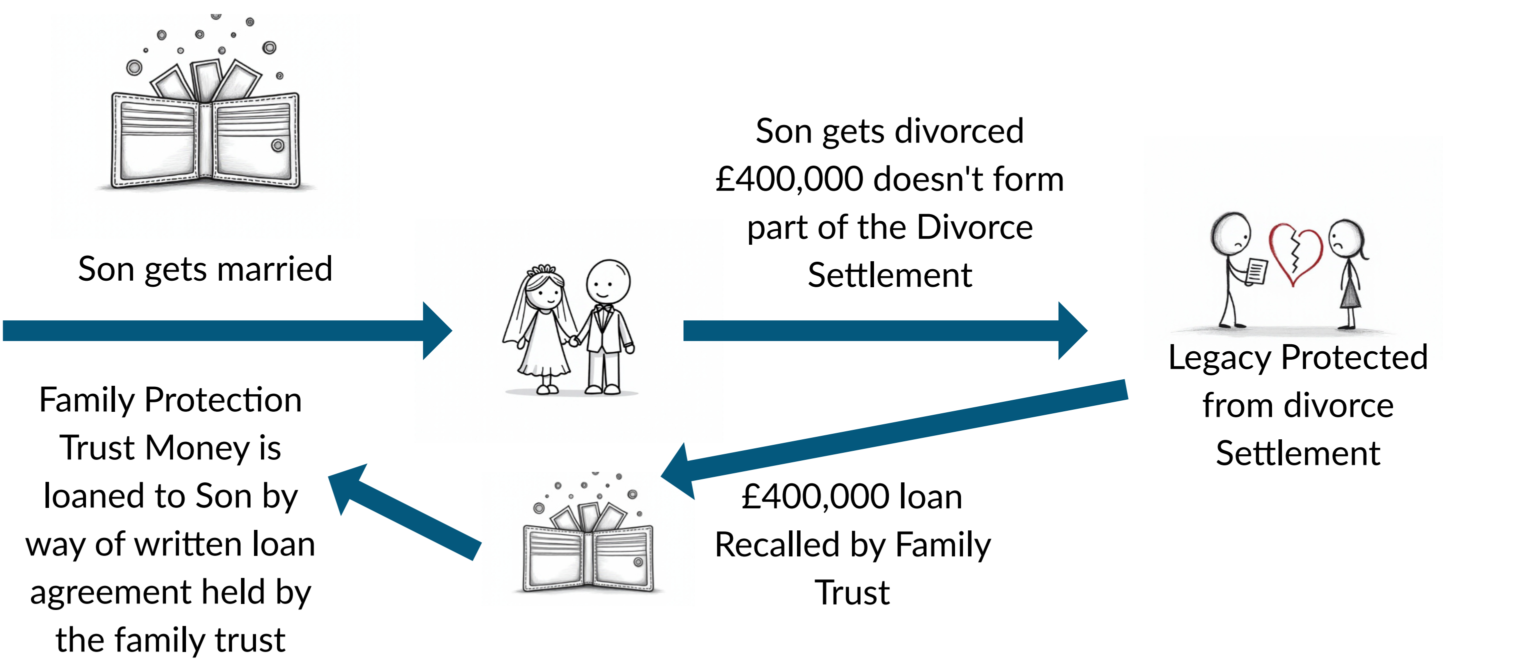
What if one of your children goes through divorce?

Consider the following situations:-

A legacy 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 of 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 a 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 P.

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!

Social impact risks to Legacies and potential for disinheritance of children

Joint Assets

Mrs P dies with Legacy returning to the Trust Plan and not to the new husband

Legacy loaned to Mrs P

All assets pass through a Family Trust Plan with Legacy loaned to Mrs P by way of written loan agreement held by the Trust

Legacy recalled to Trust

or gets divorced with the Legacy not becoming part of the divorce settlement

Mr P's Estate

Legacy protected to help ensure Children benefit from Mr P's estate and wishes

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.

LEGACY

- Daughter inherits £700,000
- Inheritance Tax due at 40%

TAX DUE

- £700,000 - £325,000 = £375,000
- £375,000 x 40% = £150,000 IHT Bill

NET

- Daughter receives:
- £700,000 - £150,000 = £550,000

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.

LEGACY

- Daughter dies with own assets
- Assets of £325,000 + £550,000 Legacy

TAX DUE

- £850,000 - £325,000 = £550,000
- £550,000 x 40% = £220,000 IHT Bill

NET

- Beneficiaries receive £655,000
- Total Tax £150,000 + £220,000 = £370,000

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 on 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.

LEGACY

- Daughter inherits £700,000
- Inheritance Tax due at 40%

TAX DUE

- £700,000 - £325,000 = £375,000
- £375,000 x 40% = £150,000 IHT Bill

NET

- Daughter receives:
- £700,000 - £150,000 = £550,000

Through the use of a Family Trust structure, the trust has a 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.

A Family Trust Plan is implemented protecting the £550,000 Residual Estate

TRUST

Legacy passed through Family Trust structure to daughter

LEGACY

- Daughter dies with own assets
- Assets of £325,000, legacy recalled

Family Trust recalls £550k into Estate

TAX DUE

- £325,000 - £325,000 = £0
- No IHT Bill

Trust makes £550k available to daughters' beneficiaries

NET

Beneficiaries receive £325,000 + £550,000 = £875,000 Total Tax saving £220,000

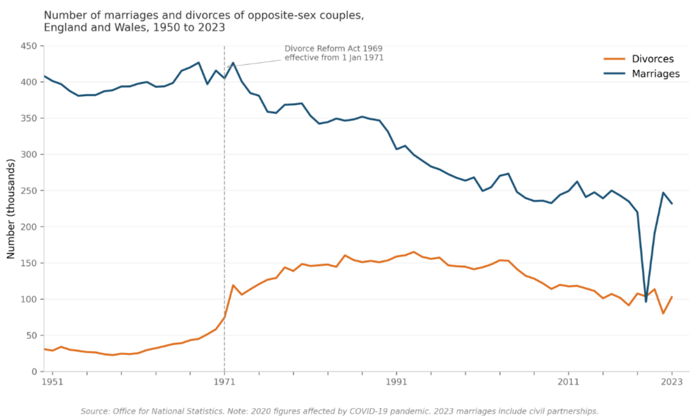
YOUR ASSETS - WILLS DIRECT ... TRUSTS PROTECT!

Don't leave your loved ones with additional costs and 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 temped 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 your legacy that could be used towards Long Term Care Costs, protecting your legacy against the divorce, separation or unfortunate death of your children. We can assist in removing the likely hood of your estate being liable to Inheritance Tax twice. All through the effective use of Trusts.



This Graph shows the historical trends in marriages and divorces in England and Wales. Currently, approximately 42% of marriages end in divorce - the lowest rate since the 1970s. However, with over 100,000 divorces still granted each year, the risk to unprotected legacies remain significant.

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.

Given the significant changes to trust and inheritance tax law effective from 6th April 2025 and 6th April 2026, and the further changes coming in 6th April 2027, it is particularly important that you review any existing will and trust arrangements. What was tax-efficient under previous rules may no longer be optimal under the new residence-based system and with the new caps on Agricultural and Business Property Relief. Professional advice should be sought immediately.

Making a Will

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

Integral to any estate planning is also making a will.

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.

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 disability who have special needs), 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 on the size of your estate, there are set rules which will be applied to determine who inherits and how much if you do not make a Will.

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 the benefit actually do so in accordance with your wishes, and at the same time avoiding any possible disputes between relatives.

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.

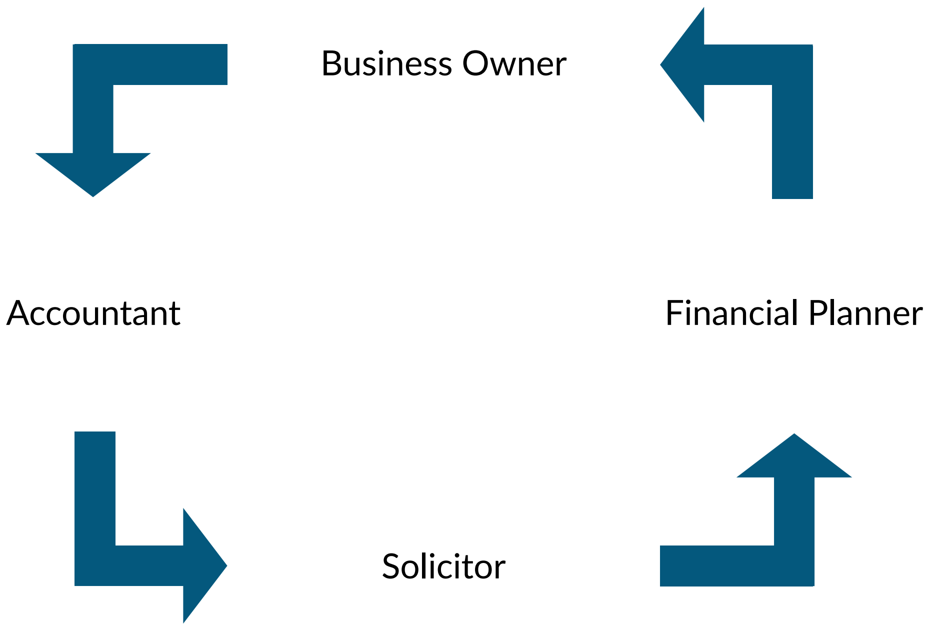
What was once an Inheritance Tax exempt asset via Business Property Relief can suddenly attract 40% as it passes down the generations.

From 6th April 2026, a significant change affects Business Property Relief (BPR) and Agricultural Property Relief (APR). A new cap will limit 100% relief to the first £2.5 million of qualifying agricultural and business assets per individual.

Any value above £2.5 million will attract 50% relief, creating an effective IHT rate of 20% on the excess. For married couples or civil partners, this allows up to £5 million at 100% relief (plus up to £6.3 million when combined with the nil rate band). Unused relief can now be transferred between spouses on death.

Even 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 advice 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. The financial planner will recommend the appropriate

Consider

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

Solution

Mr P creates the 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.

Note

From 6th april 2026, if Mr P's business is valued above £2.5 million, the value exceeding this threshold will only receive 50% relief instead of 100% relief. Each trust will have a separate £2.5 million allowance for 100% relief at each 10-year anniversary or exit charge. Careful planning is required to maximise relief on larger estates, and specialist tax advice should be sought.

Mrs P sells the business for £500,000, and the £500,000 passes to the trust.

Mrs P receives the £500,000 from the Business Trust, but signs a loan agreement to show she is "borrowing" the money.

On Mrs P's demise the £500,000 loan is recalled by the Business Trust, saving £200,000 Inheritance Tax.

If Mrs P had remarried, her new husband would have no claim on Mr P's 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 Tax Planning

Case Study - Mr & Mrs P

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

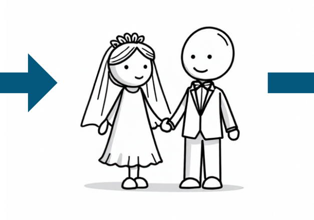
Mrs P subsequently remarries but then dies leaving everything to the new husband, who could walk away with the whole £500,000 and the 2 children could be left with NOTHING!

Widget & Sons Ltd

No Trust Structure £500,000 Business Assets

Mrs P Remarries

Assets pass unprotected to Mrs P



Mrs P dies leaving estate to new Husband

or later gets divorced with the value at risk of becoming part of the divorce settlement

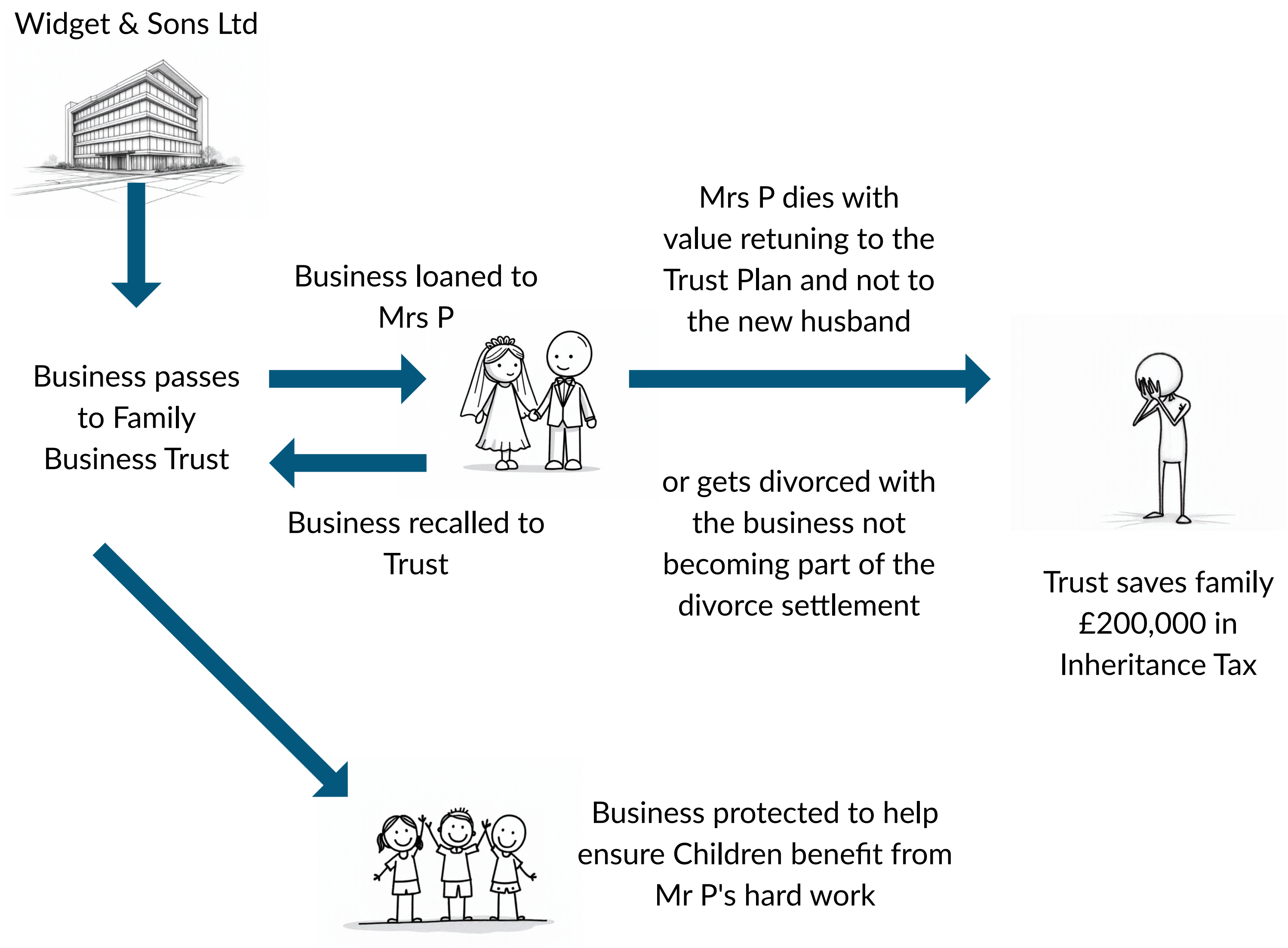
Family lose £200,000 in Inheritance Tax on her death

Children face the risk of receiving none of their Father's Business

Mr & Mrs P's 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 P, 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 P's dying wish.



A Typical Solution For Our Married Clients

Mr P's Will

Mrs P's Will

Family Trust protecting 50% of family home

Family Trust protecting 50% of family home

Family Trusts Protecting Residual Estate

Family Trusts Protecting Residual Estate

Gifting Trusts protecting Lifetime Gifts & Children's Inheritance

Gifting Trusts protecting Lifetime Gifts & Children's Inheritance

Pension Policies & Death in Service Benefits

Life Cover Policies

Pension policies & Death in Service Benefits

Life Cover Policies

Business Assets

Business Assets

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