CORNERSTONE WILLS

The Family Trust

In today's sophisticated financial markets many people qualify for death-in-service benefits (DISB) from their employer or via their pension scheme.

This is not generally a problem as the lump sum goes straight to the beneficiary, usually the surviving partner.* The lump sum is never counted as part of the deceased's estate, so there is no Inheritance Tax (IHT) to pay. It would, however, now be part of your partner's estate so there could be an issue when your partner then dies or remarries.

At this point the whole estate would be subject to Inheritance Tax and that would include the lump sum your partner received. (Inheritance Tax is currently payable at 40% on the value of the whole estate above the tax-free threshold.)

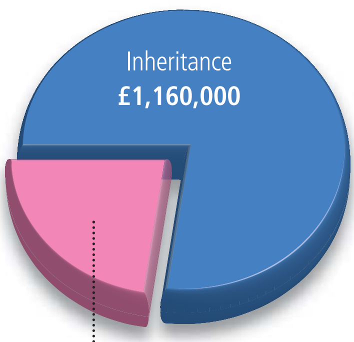
Additionally, if the surviving spouse were to remarry there would be no guarantee that any or all of the benefit would be passed onto the children or future generations.

These problems can be avoided by simply having the death-in-service benefit paid into Trust.

> "Trusts can reduce or eliminate any inheritance tax your family pays"

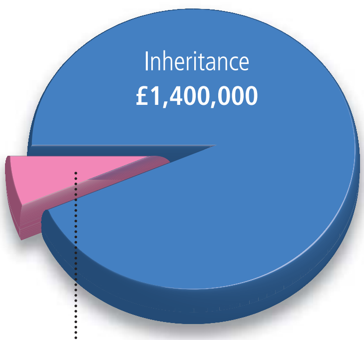
Your partner gets full access to the funds (through a loan arrangement with the Trustees) to invest or spend as they wish. This loan arrangement helps by creating a liability on your partner's estate that must be taken into consideration in your partner's affairs so that on their death the loan is repaid from their estate to the trust, thus reducing the overall value for IHT.

Without Family Trust



Inheritance Tax
£340,000

With Family Trust



Inheritance Tax
£100,000

How does this work?

Without Family Trust

Peter dies and leaves his estate to his wife Jane	£500,000
Death benefit paid to Jane	£600,000
Jane's own estate	£400,000
Total estate	£1,500,000
Less tax free allowance (x2 to include Peter's unused allowance)	-£650,000
Net estate for calculation of Inheritance tax	£850,000
Inheritance Tax at 40%	**£340,000**

With Family Trust

Peter dies and leaves his estate to his wife Jane	£500,000
Jane's own estate	£400,000
Total estate	£900,000
Death benefit of £600,000 in trust makes loan of £200,000 to Jane	£200,000
Gross estate	£1,100,000
Minus loan due back to Trust	-£200,000
Less tax free allowance (x2 to include Peter's un-used allowance)	-£650,000
Net estate for calculation of Inheritance Tax	£250,000
Inheritance Tax at 40%	**£100,000**

It is clear from this illustration that a Family Trust can ensure that substantial sums of money (in this case £240,000) are passed onto your chosen beneficiaries.

*For simplicity, the word partner has been used throughout. This term refers to spouses, civil partners, and unmarried partners.

For more information please contact us or visit our website **www.cornerstonewills.co.uk**
Tel: 01276 482850 and 01276 482851 **Fax:** 01276 482852 **Email:** info@cornerstonewills.co.uk

The Family Trust *(continued)*

Other things you may need to know

Trustees can decide to make interest-free loans from the trust or to charge interest on the loan. Charging interest on the loan (say at 2% above the base rate) creates a further liability on second death. This interest must be paid from the estate back to the trust, in addition to the loan thus reducing the overall value of the estate for IHT purposes.

If your partner doesn't leave enough money to pay back the loan on their death, there will be no liability on the trustees.

The Family Trust is liable for its own Inheritance Tax. A charge of 6% is made every 10 years on the excess over the Nil Rate Band and there is also an exit fee, but both of these can be offset by the use of multiple trusts created with different dates.

How else would I use a Family Trust?

Although these trusts are mainly used to receive death in service benefits they can receive other assets in order to save inheritance tax (on the death of the surviving partner or spouse or other beneficiary) and ring-fence these assets for your family and future generations. These "assets" could include:

- Any business or agricultural property that qualifies for 100% business/agricultural property relief;
- Your entire estate (for example, where your children are wealthy in their own right, gifting your estate into Family Trust(s) rather than directly to your children will save inheritance tax on your children's death);
- Lump sum death payouts from pensions, life assurance or mortgage protection insurance.