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BRADSTOCK BOURNE LTD
FINANCIAL SOLUTIONS

Guide to Securing Your Legacy

Adaptable control, protection, and flexibility across generations

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INDEPENDENT FINANCIAL ADVISER

Securing Your Legacy

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Welcome to our *Guide to Securing Your Legacy.*

Trusts have been used for centuries to manage and safeguard wealth, yet they continue to be amongst the least understood aspects of estate planning. Although often seen as complicated or solely for the very wealthy, a trust is simply a legal arrangement that separates ownership from control for the benefit of a beneficiary. When properly constructed, trusts can regulate how assets are utilised, protect against creditors and disputes, prevent probate for enhanced privacy and faster proceedings, and reduce costs and family disagreements.

Today, with changing tax laws and increasingly varied family structures, such as blended families, unmarried partners, and dependents with special needs, trusts remain essential for efficient and effective asset transfers. They provide precise control over timing and conditions, enable the inclusion of safeguards or incentives, and can align with charitable or business succession aims. Whether protecting a home, managing investments, or planning for incapacity, trusts offer adaptable control, protection, and flexibility across generations.

Demystifying the structure of a trust

At its core, a trust is a formal arrangement involving three main parties. First, there is the 'settlor', the person who establishes the trust and transfers assets into it, such as property, cash, or investments. Next are the 'trustees', the individuals or professionals appointed to oversee these assets according to the settlor's instructions. Trustees have a legal

obligation to act in the best interests of the final party, the 'beneficiaries', who are the people or organisations intended to benefit from the trust.

This simple yet powerful structure allows the settlor to determine the terms for how their wealth is managed and distributed long after they are gone. For instance, a settlor can specify that funds should only be used for a grandchild's education or that a vulnerable relative receives a regular income for life. Because managing a trust involves significant legal and financial responsibilities, many people choose to appoint professional trustees, such as a solicitor or a trust company, to guarantee impartial governance and strict compliance with the law.

Navigating the different types of trusts

The UK legal system offers various trusts, each tailored for different situations. A 'bare trust' is the simplest type, where the beneficiary has an absolute right to the assets and income once they turn 18 (or 16 in Scotland). It is often used to hold assets for children. An 'interest in possession trust' grants a beneficiary (the 'life tenant') the right to receive income from the trust for their lifetime, but they cannot access the capital. After their death, the capital passes to other specified beneficiaries.

More adaptable options include 'discretionary trusts', where trustees possess broad powers to determine which beneficiaries receive what, how much, and when. These are highly useful for adjusting to evolving family needs. Specialised trusts also exist, such as a 'vulnerable person's trust' or a 'disabled person's trust', which offer favourable tax treatment when established for beneficiaries who meet specific criteria. Lastly, 'charitable trusts' permit you to allocate assets to a cause you value, creating a lasting philanthropic legacy.

When a trust is the right solution

There are many situations where a trust is extremely useful. For blended families, a trust can ensure that a

> The benefits of creating a trust are considerable.

new spouse is cared for during their lifetime, while making sure that the original assets eventually go to the children from a previous relationship. They also form a key part of planning for beneficiaries who might be vulnerable because of age, disability, or an inability to manage their own finances, shielding them from poor decisions or external influence.

Trusts also play vital roles in business succession, enabling ownership to be transferred smoothly without disrupting operations. For those with charitable aims, a trust can establish a formal, long-term framework for giving. In all these situations, the core purpose remains the same: to provide a layer of control and protection that a simple, outright gift or inheritance cannot offer, ensuring your wishes are precisely followed.

Tax landscape in 2025/26

Understanding the tax implications of trusts is essential. For Inheritance Tax (IHT), everyone has a 'nil-rate band' of £325,000 for the 2025/26 tax year. This is the amount you can pass on without paying tax. Estates are generally taxed at 40% on amounts above this threshold.

An additional 'residence nil-rate band' may be available if you pass your main home to direct descendants, but this benefit is reduced for estates valued over £2 million. For the 2025/26 tax year, this remains at £175,000 per individual, which can be added to the standard nil-rate band when a residence is inherited by children or

grandchildren, including stepchildren, adopted children, and foster children. Where both spouses or registered civil partners have passed away, their unused residence nil-rate band can also be transferred, potentially allowing a couple's estate to benefit from a combined allowance of up to £350,000.

Making a significant gift

Gifting assets during your lifetime can lower IHT, but the '7-year rule' states that if you die within seven years of making a significant gift, it may still be included in your estate. Gifts are treated on a sliding scale (taper relief) between years 3 and 7 for IHT payable on the gift itself, and exemptions may apply, for example, the annual £3,000 allowance (with one year's carry-forward), small gifts up to £250 per recipient, and normal gifts out of surplus income that are regular and well-documented.

Most trusts, especially discretionary ones, are classified as 'relevant property trusts' for tax purposes. These may incur periodic charges, often called 10-year charges, of up to 6% on assets exceeding the nil-rate band. Proportional 'exit charges' can also apply when capital is distributed to beneficiaries. Income tax and Capital Gains Tax (CGT) are also important considerations; trusts typically pay tax at higher rates than individuals, though beneficiaries may be able to reclaim overpaid tax depending on their circumstances.

Advantages versus potential hurdles

The benefits of creating a trust are considerable. They offer control over how your assets are allocated, enabling you to set conditions and schedules. This arrangement provides strong protection against external risks, such as a beneficiary's divorce or creditors, since the trust, not the individual, legally owns the assets. Furthermore, because assets held in a trust are typically outside your estate for probate, this can make distribution faster, more private, and less prone to disputes.

However, trusts are not a one-size-fits-all solution. Establishing one involves legal costs, and ongoing administration can be complex. Since 2017, the UK's Trust Registration Service (TRS) has required most trusts to be registered with HM Revenue & Customs, including details of the settlor, trustees, and beneficiaries. Failure to register or update this information may result in penalties. Trustees must also manage investments, handle tax reporting, and oversee governance, which can be a significant burden without professional assistance.

Adapting to life's uncertainties

A trust's true worth is in its ability to balance long-term control with the flexibility to adapt to life's uncertainties. It allows you to craft a clear blueprint for your legacy, safeguarding loved ones while ensuring your intentions are honoured for years to come. By establishing a formal structure, you can provide for multiple generations, manage complex assets, and handle sensitive family dynamics with confidence.

That said, setting up a trust is a major decision that needs careful consideration. For some, simpler options like lifetime gifts or updating a Will might be enough. For others, especially with complex family situations, vulnerable beneficiaries, or specific inheritance goals, a well-structured trust provides a level of security that nothing else can. It is about finding the right balance between control, simplicity, and effective long-term management.

This guide was published before Chancellor Rachel Reeves' 2025 Autumn Budget, which was announced on Wednesday, 26 November. Please note that some details may have changed since the announcement.

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Contact us today to learn how we can help safeguard your and your family's future.

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