

Why consider using a trust?

Setting up a trust arrangement needn't be a daunting prospect. It's not always appropriate to use a trust but when it is, Wealth Matters can give you the tools you need.

There are several reasons why clients should consider placing their life policies in trust.

Speed – Policies written on a joint life first death basis will pay out to the survivor in the event of death without any delay and all that is required is a death certificate. However, where a policy is written on a single life basis - that policy will not pay out until probate (or Confirmation in Scotland) is granted on the estate. If on the other hand the policy is written in trust, the trustees can make the claim and the proceeds will be paid straight away. Even if the policy were on joint lives, there would still be a delay if both lives die together and again this can be avoided by writing the policy under trust.

Nomination of beneficiaries – It is often assumed that policy proceeds will be paid to your family in the event of your death. However, can you be sure that the proceeds will end up in the right hands? Given that the majority of people in the UK die without leaving a will, instead of passing to a spouse for example, proceeds can end up being paid to children, parents or even more distant relatives in some cases. Take the example of a sole trader who dies leaving business debts; his creditors could have a claim on his estate for repayment of amounts due to them. Simply writing the policy in trust and nominating the intended beneficiary on the trust form can avoid all this.

Convenience – What if the policy covers critical illness? It is not always the obvious solution to write this in trust since the life assured usually wishes to have access to any proceeds. However, what happens if the life assured is too ill to make the claim on the policy? Unless an Enduring Power of Attorney has been appointed, someone needs to be appointed to act on their behalf by the courts. This can take time and cost money. If the policy had been written in trust, the trustees could make the claim on the behalf of the life assured. If the life assured is unable to deal with their own affairs, the trustees can continue to hold the proceeds on trust for their benefit.

Tax Planning – With escalating property prices more people have to think about the impact of Inheritance Tax. You can take some action to reduce the impact – like giving some assets away. You may be reluctant to give up control or income from your assets in order to achieve any tax savings but there are some simple steps that can still be taken. For example, proceeds from a life assurance policy will be added on to the value of the estate on death for Inheritance Tax purposes. Given that you could never benefit personally from these proceeds, why not write the plan in trust so that any proceeds can be outside of the estate on death thereby avoiding Inheritance Tax. Even if the policy includes benefits payable during your lifetime, like critical illness, it can still be possible to find a trust solution to allow you to keep these benefits while still saving Inheritance Tax on death. The policy will only be completely free of Inheritance Tax when seven years have elapsed from when it was placed in trust. There may be other reasons to consider, based on your individual needs and circumstances. The value of tax benefits will depend on individual circumstances and current tax laws may change.

