

A Guide to Trusts

For the Tax Year 2025/26

A trust allows you to protect and manage your assets for the benefit of others, offering control over when and how your wealth is distributed while potentially providing tax advantages.

What is a Trust?

A trust is a legal arrangement where your assets are managed by people you choose (trustees) for the benefit of others (beneficiaries).

Trusts create a separate legal structure that holds and manages assets according to your specific wishes. They involve three key parties:

- **Settlor** – The person who creates the trust and transfers assets into it
- **Trustees** – Those legally responsible for managing the trust assets
- **Beneficiaries** – The people or organisations who benefit from the trust

This legal framework provides protection, continuity, and structure for how your assets are handled both during your lifetime and after your death.

Why Use a Trust?

Trusts can be a powerful way to manage, protect and pass on wealth—but they are most effective when used with clear intentions and professional guidance. A trust enables you to place assets under the legal control of trustees, who manage them for the benefit of your chosen beneficiaries. This structure allows for greater control over how and when assets are distributed, often long after the trust has been set up.

- **Control & Flexibility** – Trusts allow you to determine the timing and conditions under which beneficiaries receive money, helping ensure assets are used wisely and in accordance with your wishes.
- **Protection** – Assets placed in trust may be shielded from certain risks, such as creditors, divorce settlements, or care home assessments, depending on the structure and timing.
- **Estate & Tax Planning** – Trusts can play a key role in reducing Inheritance Tax liabilities, especially when used in combination with exemptions, reliefs, and other planning tools.

- **Support for Vulnerable Individuals** – Trusts can provide ongoing financial care for minors, those with disabilities, or individuals who are not yet ready—or able—to manage significant wealth independently.
- **Charitable Giving** – Specific trusts can be created to support charitable organisations or causes over the long term, offering both philanthropic impact and tax relief.

Every trust has its own set of rules, tax consequences, and suitability criteria. The decision to use a trust should be made carefully and in consultation with legal and financial professionals. A qualified adviser can help you explore the full range of options, explain the implications for your personal circumstances, and ensure that the trust structure chosen aligns with your wider estate and financial plans.

Types of Trusts

Different trust structures serve different purposes, each with distinct tax treatment and benefits for specific situations.

Bare Trust

The simplest form of trust where trustees hold assets until beneficiaries reach adulthood, at which point they receive full ownership.

- Beneficiaries have an absolute right to both capital and income
- Trustees have limited discretion over investment decisions
- Assets transfer automatically to beneficiaries at age 18 (16 in Scotland)
- For tax purposes, income and gains are treated as belonging to the beneficiary

Bare trusts are often used for gifting to children or grandchildren while maintaining adult oversight until they reach majority.

Discretionary Trust

Provides maximum flexibility as trustees decide how and when to distribute assets among a defined group of beneficiaries.

- No beneficiary has an automatic right to income or capital
- Trustees have wide discretion over distributions
- Can adapt to changing family circumstances over time
- Higher rate tax treatment applies to income and gains
- Potentially useful for inheritance tax planning

Discretionary trusts offer protection for beneficiaries who might be vulnerable to financial pressure or who may not yet have the maturity to manage significant wealth.

Interest in Possession Trust (Life Interest Trust)

Gives one beneficiary the right to income or use of assets during their lifetime, with capital passing to others afterwards.

- Income beneficiary entitled to all trust income as it arises
- Capital beneficiaries receive assets after the income beneficiary's death
- Often used in second marriages to balance needs of spouse and children
- Can provide security for a dependent while preserving capital for the next generation
- Special tax treatment applies depending on when the trust was established

These trusts balance the needs of different family members, typically providing for a spouse while ensuring children ultimately inherit.

Disabled Person's Trust

Specially designed to protect and support individuals with disabilities without affecting their eligibility for state benefits.

- Beneficiary must meet specific legal definition of disability
- Can receive preferential tax treatment compared to other trusts
- Protects means-tested benefits while providing additional support
- Ensures funds are professionally managed if the beneficiary lacks capacity
- May qualify for IHT relief if certain conditions are met

These trusts provide essential protection and support for vulnerable individuals throughout their lifetime.

Personal Injury Trust

Holds compensation from injury claims to protect access to means-tested benefits and ensure proper management of funds.

- Preserves entitlement to means-tested benefits and local authority support
- Protects funds from potential mismanagement
- Ensures compensation is used for its intended purpose
- Professional trustees can provide investment expertise and administration
- Not typically subject to the same tax restrictions as other discretionary trusts

Personal injury trusts offer vital protection for those who have received compensation but may need support managing substantial funds.

Charitable Trust

Established to support charitable causes, either as a standalone charity or to benefit existing charities.

- Must be established exclusively for charitable purposes
- Benefits from various tax advantages
- May need registration with the Charity Commission depending on size
- Can create a lasting legacy in line with your values
- Offers flexibility in how support is structured

Charitable trusts enable you to support causes important to you in a structured, lasting way.

Who Can Set Up a Trust?

Anyone with mental capacity can create a trust, either during their lifetime or through their will.

You can establish a trust if you:

- Are aged 18 or over (16 in Scotland)
- Have mental capacity to understand the arrangement
- Own the assets being placed in trust
- Have clear intentions for how you want assets managed

Trusts can be created:

- During your lifetime (known as a 'lifetime' or 'inter vivos' trust)
- Through your will (a 'will trust' taking effect on death)

- Automatically by law in certain situations (such as when someone dies intestate with minor children)

Professional advice is essential when setting up a trust to ensure it achieves your specific objectives and complies with current legislation.

What Can Be Held in a Trust?

Trusts can hold virtually any asset, giving you flexibility to structure your wealth according to your specific goals.

Assets commonly placed in trust include:

- Cash and bank accounts
- Investment portfolios (shares, bonds, funds)
- Residential or commercial property
- Business interests and shares in private companies
- Life insurance policies
- Valuable personal possessions (art, jewellery, antiques)
- Intellectual property rights
- Land and property

The nature of the assets may influence the type of trust most appropriate for your needs, and some assets may require specific handling by trustees with relevant expertise.

What Are the Tax Implications?

Trusts have their own tax treatment, which varies based on the type of trust and how it's structured.

The UK tax system treats trusts as separate entities with their own tax obligations:

Inheritance Tax (IHT)

- Creating a trust often counts as a transfer of assets that may trigger IHT
- Most transfers into trust are treated as Chargeable Lifetime Transfers (CLTs)
- If the value exceeds your available nil-rate band (£325,000 in 2025/26), an immediate 20% tax charge may apply
- Some trusts face additional charges every 10 years ('periodic charges') and when assets leave the trust ('exit charges')
- Certain trusts (such as disabled person's trusts) enjoy special IHT treatment

Income Tax

- Trustees are responsible for paying tax on trust income

- Basic rate tax (20%) is usually deducted before income is distributed
- Discretionary trusts pay the highest rates: 39.35% on dividends and 45% on other income
- Beneficiaries who receive income may be able to reclaim some tax depending on their personal tax position
- Some trusts (like bare trusts) are 'tax-transparent' with income taxed on the beneficiary

Capital Gains Tax (CGT)

- Trustees pay CGT on gains above the trust's annual exempt amount (£1,500 in 2025/26)
- The rate is typically 20% (28% for residential property)
- Some reliefs may apply when assets are transferred to beneficiaries
- Special rules apply when the trust is created or wound up

Professional tax advice is essential as trust taxation is complex and subject to frequent legislative changes.

What Do Trustees Do?

Trustees manage the trust assets according to the trust deed and law, acting in the best interests of the beneficiaries.

Trustees have significant legal responsibilities that include:

- Acting in accordance with the trust deed and relevant law
- Managing investments prudently and reviewing them regularly
- Keeping accurate records and preparing accounts
- Filing tax returns and paying any tax due on time
- Making decisions about income and capital distributions
- Keeping beneficiaries appropriately informed
- Registering the trust with HMRC's Trust Registration Service
- Ensuring compliance with anti-money laundering regulations

Trustees can be individuals (often family members or friends), professionals (solicitors or accountants), or trust companies. The best arrangement often combines family involvement with professional expertise.

Registering a Trust with HMRC

Most trusts must be registered with HMRC's Trust Registration Service, even if they don't have tax liabilities.

The Trust Registration Service (TRS) is a legal requirement aimed at improving transparency:

- New trusts must register within 90 days of creation
- Existing trusts have specific deadlines based on their circumstances
- Registration requires detailed information about the trust, settlor, trustees, and beneficiaries
- Changes to key information must be updated within 90 days
- Non-compliance can result in penalties

The registration process can be complex, and many trustees seek professional support to ensure they meet all requirements correctly and on time.

Using a Trust in Estate Planning

Trusts provide powerful tools for managing how your wealth passes to the next generation.

Within your broader estate plan, trusts can help:

- Reduce your estate's potential Inheritance Tax liability through careful lifetime planning
- Protect vulnerable family members with structured financial support
- Ensure business continuity by managing succession effectively
- Support family members at different life stages with appropriate distributions
- Prevent family wealth from passing outside the family in the event of divorce
- Create a lasting legacy that reflects your values and priorities
- Provide for complex family situations such as second marriages or stepchildren

When integrated thoughtfully into your estate planning, trusts can help preserve family wealth across generations while reflecting your specific wishes.

What Happens When a Settlor Dies?

A trust typically continues after the settlor's death, with trustees continuing to manage assets according to the trust terms.

When a settlor dies:

- Existing lifetime trusts continue according to their terms
- Will trusts come into effect as specified in the will
- Trustees may need to review investment strategies and distribution policies
- Trust assets generally don't form part of the settlor's estate for probate
- Depending on when the trust was created, there may be inheritance tax implications
- New trustees may need to be appointed if the settlor was also a trustee

The death of a settlor doesn't usually trigger the termination of a trust unless specifically provided for in the trust deed.

Professional Support

Trust creation and administration requires specialist expertise to navigate complex legal and tax frameworks effectively.

Effective trust planning typically involves:

- Solicitors to draft trust deeds and provide legal advice
- Accountants for tax planning and compliance
- Financial advisers for investment strategy
- Professional trustees for ongoing administration
- Regular reviews to ensure the trust remains effective as circumstances and legislation change

Why might a Trust not be suitable?

While trusts offer valuable benefits such as control, asset protection, and potential tax advantages, they are not the right solution for every individual or family. Trusts are legal structures that come with long-term responsibilities and establishing one should be based on a clear understanding of both the benefits and potential drawbacks.

- **Irrevocability** – Most trusts, once established, cannot be easily altered or cancelled. This lack of flexibility can become problematic if personal or financial circumstances change.
- **Administration & Costs** – Trustees must manage the trust in accordance with the law and the trust deed, which may involve complex tax reporting, record-

keeping, and decision-making. Legal, accounting, and investment management fees can also apply.

- **Tax Implications** – Depending on the type of trust, there may be upfront Inheritance Tax charges, ongoing income or capital gains tax liabilities, and 10-yearly periodic charges that may reduce the trust's value over time.

Because trusts are highly individual in their structure and purpose, it is important to seek advice from a qualified legal or tax adviser before proceeding. A professional can help assess whether a trust aligns with your specific goals and explain how different trust types may suit your needs, or present challenges, in the short and long term.

How does Tacit Support Trustees and Trust Investments?

Trustees have a legal duty to manage trust assets prudently, and choosing the right investment partner is critical to meeting those obligations. At Tacit, we understand the distinct responsibilities that come with managing money held in trust and offer a tailored investment service to support a wide range of trust arrangements.

We work with individual, family and charitable trustees to manage investments held within various trust structures, including discretionary, bare, interest in possession, and disabled person's trusts. Our services are designed to align with the specific objectives and legal framework of each trust.

Our support includes:

- **Discretionary investment management** – We construct and actively manage portfolios in line with the trust's agreed risk profile, time horizon, and beneficiary needs.
- **Performance reporting and reviews** – Trustees receive regular, clear reports and can schedule periodic reviews to assess portfolio performance and ensure the investment strategy remains suitable.
- **Professional coordination** – We liaise with the trust's legal and tax advisers to ensure the investment strategy complements the broader goals of the trust and remains compliant with regulatory obligations.
- **Safe custody of assets** – All trust assets are securely held by AJ Bell Securities Ltd, our dedicated FCA regulated custodian, ensuring transparency and separation from our own balance sheet.

Whether you're a lay trustee seeking support or a professional acting on behalf of a complex structure, our experienced team can help you manage your responsibilities with confidence. We aim to preserve capital,

deliver sustainable growth or income, and provide peace of mind through expert, compliant investment management.

Will I be charged a fee?

If you are an existing client, your trust portfolio will be managed under your current service agreement and fee structure, consistent with your main investment portfolio.

Where are your assets held?

We have strategically chosen to partner with AJ Bell Securities Ltd, a specialist Custodian, to administer the regulatory and operational aspects of our trust offering.

This deliberate separation of responsibilities offers several distinct advantages:

- **Enhanced Security** - Your assets benefit from the robust safeguarding protocols of a dedicated custodian, with assets held separately from our firm's balance sheet.
- **Specialised Expertise** - Our custodian brings focused regulatory expertise in settlement and administration, ensuring continuous compliance with evolving tax legislation.
- **Investment Focus** - This partnership allows our investment professionals to concentrate exclusively on portfolio management.

AJ Bell Securities Limited are one of the largest providers of investment platforms and stockbroker services in the UK, is a member of the London Stock Exchange and regulated by the Financial Conduct Authority.

This guide is not personal advice. If you're at all unsure of the suitability of a trust for your circumstances, please ask your usual Tacit contact for advice.

Important things to remember

All the solutions we offer involve some form of investment risk and you should be aware that the value of investments in your trust can fall in value, so you could get back less than the original capital invested.

Whilst the rules we refer to are those that currently apply, they can change over time and their value and how you are taxed will depend on your personal circumstances, and tax rules at the time.

You have sole responsibility for the management of your tax and legal affairs including all applicable tax filings and payments and for complying with the applicable laws and regulations.

We may provide guidance on using tax-efficient structures such as trusts. We are not specialist tax advisers and will not provide you with tax or legal advice and recommend that

you obtain your own independent tax and legal advice, tailored to your individual circumstances.

Contact us

If you are considering establishing a trust or need support with existing trust investments, our specialist team can help.

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