

Passing on wealth through trusts

Is it the right moment to begin safeguarding your wealth for the future?

A UK trust is a legal arrangement in which one party holds and manages assets on behalf of another party, in accordance with the terms set by the trust's creator.



They often serve as a safeguard for wealth, ensuring that assets are passed on to the next generation according to specific wishes. Trusts are essential in estate planning; however, due to their complexity, obtaining professional advice before setting one up is vital.

Why consider a trust?

Imagine you want to leave your estate to your grandchildren, but they are still young adults. Would they handle sudden financial freedom responsibly, or might they lack foresight and spend it unwisely? Alternatively, you may have nieces and nephews, but you're unsure how to distribute your wealth fairly.

A trust helps address concerns like these by allowing you to decide how and when your beneficiaries access their inheritance. Whether it's providing for education, managing wealth for those who cannot handle large sums, or supporting future generations, trusts offer customisable solutions to suit individual circumstances.

The many forms and purposes of trusts

Trusts have been utilised for centuries and serve various functions. They can distribute gifts gradually over time or safeguard wealth for beneficiaries

who may face difficulties, such as being too young, lacking financial knowledge or encountering external risks like unstable personal relationships.

For some, using a trust reflects broader family strategies, such as safeguarding assets against specific risks like gambling issues or external influences. Additionally, in jurisdictions where tax laws differ, trusts can have varying tax implications, making expert advice essential for effective planning.

Defining a trust

At its core, a trust creates a legal relationship among three parties. The 'settlor' transfers their assets into a trust and specifies their wishes. The 'trustee', often a professional like a lawyer, manages the trust according to these instructions. Lastly, there is the 'beneficiary', who receives the trust's assets at the appropriate time and for its intended purpose.

Choosing a trustee is a crucial decision because they must act in the best interests of the beneficiaries. This often involves overseeing complex financial matters and managing practical responsibilities. Professional trustees bring neutrality and expertise to the role, ensuring the trust operates smoothly and accurately reflects the settlor's intentions.

When outright gifts aren't the right fit

Sometimes, giving money directly isn't the best option. A trust enables you to retain control over your assets even after transferring them. You may prefer to distribute funds gradually or tie the disbursement to specific milestones, such as paying university fees or contributing to a house deposit.

Some families also use trusts when one or more beneficiaries might struggle to manage money due to personal challenges or incapacities. By structuring the trust carefully, it's possible to ensure that funds are protected and distributed to support the intended recipient at the right time.

A means to protect wealth

Family dynamics and external influences can sometimes jeopardise financial security. For instance, a beneficiary might lead a high-risk lifestyle or be swayed by an unreliable partner. A trust acts as a safeguard, imposing conditions on how and when wealth can be accessed whilst providing protection through agreements set out by the settlor.

Charitable trusts are another option for those wishing to leave a lasting legacy. They ensure that funds benefit chosen causes for many years to come, rather than just a one-time donation. ■

TIME TO TRUST IN YOUR FUTURE?

If you're considering a trust as part of your estate planning, professional advice is essential to help you make informed decisions and set up your trust properly. For expert guidance and additional support, contact us today and start safeguarding your wealth for the future.

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Protect your retirement plans by investing more today

Why larger pension contributions can have a significant impact

Pensions are a crucial component of financial planning, particularly for individuals seeking to secure a comfortable retirement. For some, increasing pension contributions can be a strategic move to make up for missed savings or to maximise tax-efficient benefits. However, understanding the rules around contributions requires careful consideration to avoid potential pitfalls.

Large contributions can assist individuals who have delayed pension saving due to cost concerns or competing financial priorities. They are also attractive for those looking to transfer significant funds into a tax-efficient account. However, there are annual limits to consider, and understanding how these operate is essential to avoid unnecessary charges.

How pension contributions work

When you contribute to a pension plan, your contributions benefit from tax relief. For personal pensions, such as a Self-Invested Personal Pension (SIPP), your provider claims 20% tax relief from HM Revenue & Customs (HMRC). If you are a higher or additional rate taxpayer, you can claim additional relief through your self-assessment tax return or tax code adjustment for higher rate only, which can significantly reduce your overall tax bill.

Another advantage is that your investments grow tax-free as long as they remain within the pension. Investment income, interest and any gains are exempt from taxes. However, remember that once you start withdrawing from your pension, Income Tax will be applicable, except for the current first 25% (often called the tax-free lump sum), up to a maximum of £268,275 for most people.

Understanding your annual allowance

Your own pension contributions that qualify for tax relief are subject to limits. This is capped at the higher of 100% of your UK taxable earnings or £3,600 (including tax relief). There is also an annual allowance that limits how much you and others can contribute across all your pensions each tax year without incurring additional taxes.

For the 2025/26 tax year, the annual allowance is set at £60,000. For defined contribution pensions, this allowance is straightforward to calculate; it includes your contributions, tax relief and any payments made by employers or third parties. However, for final salary or defined benefit pensions, the situation is more complex. The annual increase in the pension's capitalised value

over the tax year is used as the benchmark, and your scheme administrator can perform this calculation.

Impact of tapered allowances

High earners might face a reduced annual allowance, known as the 'tapered annual allowance'. This applies if your threshold income exceeds £200,000 and your adjusted income surpasses £260,000. It could reduce your annual allowance to as little as £10,000, depending on your earnings and employer contributions.

After retirement, opting for flexi-access to your pension, such as through drawdown, triggers the Money Purchase Annual Allowance (MPAA) as soon as anything above your tax free lump sum is withdrawn. This limits your tax-efficient annual contributions to money purchase pensions to just £10,000 (including employer and third party contributions as well as your own). Recognising these restrictions is crucial to avoiding tax penalties on excess payments.

Carry forward unused allowances

If you haven't used your full annual allowance in previous tax years, you may be able to carry forward unused portions to make larger contributions now. This rule allows you to access unused allowances from the past three tax years, giving you the opportunity to 'catch up' on missed contributions.

Carry forward is particularly helpful for self-employed individuals with fluctuating incomes or those expecting large contributions from a windfall, such as an inheritance or the sale of a business. However, the process has certain requirements. For example, you must have been a member of a UK-registered pension scheme in previous years, and your earnings in this tax year must support the contribution amount you plan to make if the contribution is to be a personal one.

Planning for employer contributions

For business owners, there is greater flexibility when making contributions through a

company. Employer contributions are permitted up to the individual's annual allowance and carried forward amounts. Importantly, these payments do not need to be connected to taxable income. However, if they are to receive corporation tax relief, the company contributions must satisfy the 'wholly and exclusively' test, ensuring they are reasonable in relation to your role and salary.

Remember that in previous years, the annual allowance was lower, limited to £40,000 prior to the 2023/24 tax year. Also, any reductions due to the tapered annual allowance must be included. These details emphasise the complexity of correctly applying carry-forward rules.

Monitor your tax position

Exceeding your annual or carried forward allowances has consequences. Any excess contributions are subject to a tax charge. It is your responsibility to report this to HMRC and pay the required charges through your self-assessment tax return or from the pension plan. Considering the complexities involved, from the MPAA to implementing rules, seeking professional advice is crucial. Whether you want to optimise your contributions or understand personalised strategies, we can guide you towards making the most of your pension. ■

NEED PROFESSIONAL GUIDANCE WITH YOUR RETIREMENT PLANS?

Contributing more to your pension can greatly enhance your retirement savings, but the process might seem daunting. If you require advice specific to your situation or help with HMRC rules, contact us today. Taking charge of your pension savings now can help secure your financial future.

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OF EACH CLIENT AND MAY BE SUBJECT TO CHANGE IN THE FUTURE. FOR GUIDANCE, SEEK PROFESSIONAL ADVICE. A PENSION IS A LONG-TERM INVESTMENT NOT NORMALLY ACCESSIBLE UNTIL AGE 55 (57 FROM APRIL 2028 UNLESS THE PLAN HAS A PROTECTED PENSION AGE).

THE VALUE OF YOUR INVESTMENTS (AND ANY INCOME FROM THEM) CAN GO DOWN AS WELL AS UP, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 224888.