Key Steps in Family Trust Planning for Inheritance Tax

Why Family Trust Planning Matters

Setting up a family trust can be one of the most effective ways to manage how your wealth passes to the next generation. It offers control, flexibility, and, when done carefully, can reduce the inheritance tax your estate would otherwise owe. But a trust is a legal arrangement, not a casual promise. Rushing into it without checking the details can create problems for everyone involved. This article walks through the practical points to consider before you sign anything.

Check Your Reasons for a Trust

The first step is being clear about what you want the trust to achieve. Common aims include protecting assets for children until they are old enough to manage them, providing for a spouse while preserving capital for children from a previous marriage, or removing assets from your estate to reduce inheritance tax. Each of these goals points toward a different type of trust, so understanding your own priorities makes the next decisions easier. If you are unsure, it helps to write down your objectives and discuss them with someone who deals with this area regularly.



Understand the Different Types of Trust

Not all trusts work the same way. A bare trust gives the beneficiary an immediate right to the assets and income once they turn 18. It is simple but offers little control. A discretionary trust gives trustees the power to decide how and when to distribute income or capital among a group of beneficiaries. This is more flexible but can have different tax consequences, including charges under the relevant property regime. The trust you choose should match your aims. For example, if you want to support grandchildren at university but not hand them a lump sum at 18, a discretionary trust may be a better fit than a bare trust.

Decide Who Will Act as Trustee

Trustees are the people legally responsible for managing the trust assets and following the terms of the trust deed. They make decisions about investments, distributions, and tax reporting. Choosing the right trustees matters. You need people who are trustworthy, organised, and willing to take on the role. Many people ask a family member and a professional together, so there is a balance of personal knowledge and technical expertise. A professional

trustee, such as a firm that handles estate planning, can bring experience but may charge fees. Discuss the role openly before anyone agrees to take it on.

A well-structured trust can save significant inheritance tax, but only if the paperwork and ongoing administration are handled correctly. Jones & Co works with families to assess their estate exposure and find practical ways to reduce avoidable tax. Their approach focuses on clarity and efficiency, helping ensure the trust does what you intend without creating hidden complications.

Know Who the Beneficiaries Will Be

Beneficiaries are the people who will benefit from the trust. You can name individuals, a class of people (such as your children or grandchildren), or even charities. The trust deed will define who they are and what rights they have. In a discretionary trust, no beneficiary has a fixed right to anything until the trustees decide to make a distribution. That flexibility can be useful, but it also means the beneficiaries cannot demand anything. Make sure you are comfortable with that balance. If you want someone to receive a specific sum at a specific time, a fixed interest trust or a life interest trust might be more appropriate.

Draft the Trust Deed Carefully

The trust deed is the document that creates the trust and sets out its terms. It names the settlor (the person putting assets into the trust), the trustees, and the beneficiaries. It also specifies what powers the trustees have, when the trust ends, and how distributions can be made. This is not a do-it-yourself document. A poorly drafted trust deed can lead to disputes, unexpected tax charges, or the trust being treated differently by HM Revenue & Customs than you intended. Have a solicitor or a specialist estate planner prepare it. The small cost upfront can save much larger costs later.

Consider the Tax Implications

Trusts have their own tax rules. Depending on the type of trust and the value of the assets, there may be an immediate inheritance tax charge when assets are transferred in. There can also be periodic charges every ten years and exit charges when assets leave the trust. Income generated by trust assets is taxed at the trust rate, and capital gains tax may apply when the trustees sell assets. These rules are complex, but they are manageable with proper planning. A professional adviser can help you estimate the likely charges and structure the trust to keep them as low as possible. The goal is not to avoid tax entirely, but to ensure the trust is efficient and compliant.

Plan for Ongoing Administration

A trust is not a set-and-forget arrangement. Trustees must keep records, file tax returns, and make decisions about distributions and investments. If the trust owns property or shares, there may be additional responsibilities. Before you set up a trust, think about who will handle these tasks. Some families ask a professional firm to manage the administration, while others prefer to do it themselves with occasional advice. Whichever route you choose, factor in the time and cost involved. Neglecting the paperwork can lead to penalties or the trust not achieving its tax objectives.

Many people find that working with an experienced adviser helps them avoid the common pitfalls of trust planning. Jones & Co provides personalised inheritance tax planning that considers the full picture of your estate, not just the trust in isolation. That kind of joined-up thinking often makes the difference between a trust that works smoothly and one that creates problems down the line.

Review Your Wider Estate Plan

A trust does not exist in a vacuum. It should fit alongside your will, your life insurance policies, your pension nominations, and any other estate planning arrangements you have. For example, if you have a trust that shelters assets from inheritance tax, but your will leaves your entire estate to your spouse, the two may not work together as efficiently as they could. Review your whole plan at the same time. A change in one area can affect another. This is especially important if your family circumstances have changed recently, such as a marriage, divorce, or the birth of children.

Think About What Happens If Circumstances Change

Life does not stay still. A trust set up today may need to adapt to future events. Some trusts allow the trustees to add or remove beneficiaries, or to change how distributions are made. Others are more rigid. When you are planning, consider whether you want flexibility built in. For example, if you are setting up a trust for your children, you might want the trustees to be able to adjust the shares if one child later has greater financial needs. These provisions need to be written into the trust deed from the start. Changing a trust later can be complicated and may have tax consequences.

Get Professional Advice Early

The complexity of trust law and tax means that professional advice is not just helpful - it is often essential. A specialist can help you choose the right type of trust, draft the deed, and plan for the tax implications. They can also advise on whether a trust is the best option for your situation at all. Sometimes, other arrangements such as a gift with reservation or a deed of

variation might achieve similar results more simply. The key is to get advice before you act, not after.

The practical steps above are not exhaustive, but they cover the main areas that families need to think through. Taking the time to work through each one before you set up a trust can save frustration, expense, and unintended tax bills later. The right trust, properly set up and managed, can be a valuable part of passing on wealth clearly and efficiently to the people you care about.