



# YOUR WILLS TEAM

## Lifetime Trusts Made Simple – Your Wills Team Guide

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### 1. What is a Lifetime Trust?

A lifetime trust is a legal arrangement you create during your lifetime, rather than through your Will. You transfer certain assets or money into the trust while you are alive, and those assets are then managed by trustees for the benefit of your chosen beneficiaries. Unlike a Will trust, which only takes effect after death, a lifetime trust can have an immediate impact. It can be used to provide for loved ones, plan for future care costs, or manage family wealth in a structured way.

### 2. Reasons People Set Up Lifetime Trusts

There are many reasons why someone may choose to set up a lifetime trust:

- To reduce the value of their estate for inheritance tax planning purposes.
- To provide for children or grandchildren during their lifetime.
- To safeguard assets from future care home fees (though the rules here are complex).
- To retain control over how and when assets are used by beneficiaries.

Lifetime trusts are often part of broader estate planning strategies and can give peace of mind that wealth is protected.

### 3. Gift Trusts and Inheritance Tax Planning

One common form of lifetime trust is a gift trust. This involves gifting money or assets into a trust for the benefit of your chosen beneficiaries. If you survive for seven years after making the gift, it is generally outside of your estate for inheritance tax purposes. Gift trusts can therefore be an effective tool in reducing potential tax liabilities, while still allowing you to control how and when beneficiaries receive the assets.

This is particularly useful if you want to gift money or assets to children or grandchildren who are still young.

#### **4. Life Interest Trusts in Lifetime Planning**

A life interest trust allows you to place assets into trust but give a named person (often a spouse or partner) the right to receive income or use the assets during their lifetime. After their death, the assets pass to other beneficiaries you have chosen, such as children. This can be particularly useful in second marriage situations, or where you want to provide for a partner while preserving capital for the next generation.

#### **5. Discretionary Trusts During Lifetime**

Discretionary trusts give trustees wide powers to decide which beneficiaries should benefit, when, and how much they should receive. They are particularly useful if your beneficiaries are young, financially inexperienced, or in circumstances where you want to keep flexibility (for example, if a child later divorces or faces financial difficulty). These trusts can be set up during lifetime to ensure your wealth is managed and distributed according to changing circumstances.

#### **6. Trusts and Care Fees**

Some people consider lifetime trusts as a way to protect assets from being used to pay for care home fees. However, local authorities can look closely at whether assets have been deliberately placed into trust to avoid care costs – known as 'deliberate deprivation'. If this is the case, they may still assess you as though you owned the assets. It's therefore important to take professional advice before creating a trust with care fee planning in mind.

#### **7. Practical Steps to Setting Up a Lifetime Trust**

If you are considering setting up a lifetime trust, there are several steps to think about:

- Decide what assets you want to place into the trust.
- Choose suitable trustees – people you can rely on to act in the best interests of your beneficiaries.
- Consider how the trust will be taxed, both at the time of creation and on an ongoing basis.
- Prepare a clear trust deed, setting out the rules of the trust and how the trustees should manage it.
- Take legal and tax advice to ensure the trust is structured in the best way for your circumstances.

A lifetime trust can be an excellent planning tool, but it requires careful thought to ensure it works as intended.