



Budget News March 2006 Inheritance Tax and Trusts

Although the Chancellor's speech on Wednesday 22nd seemed moderately innocuous hidden in the press releases were some very significant changes to trusts and inheritance tax.

These changes will affect interest in possession (IIP) and accumulation and maintenance (A & M) trusts.

As currently announced the new legislation may affect existing interest in possession trusts and accumulation and maintenance trusts. All the discounted gift arrangements with which we are familiar involve an interest in possession trust. The proposal is that these various trusts will be taxed as if they were discretionary trusts. This retrospective measure would mean that there could be a periodic tax charge every 10 years of up to 6% and an exit charge. Establishing a trust now with a transfer of assets of over £275,000 would trigger an immediate tax charge.

The effect of these changes is not yet clear. Full details will not be known until the Finance Bill is published in April and the Finance Act receives Royal Assent sometime in the summer.

It seems that:

1. Existing IIP trusts can continue unaffected until the death of the life tenant. If a beneficiary then receives all the trust property absolutely it would appear that the pre Budget rules will continue to apply.
2. Existing (A & M) trusts will be affected from 6 April 2008 if all assets do not go absolutely to beneficiaries when they attain the age of eighteen.

We do not recommend any action at this stage. In the sad event that the proposals go ahead in their current form they will be effective from 22 March.

The trustees of many existing small discretionary trusts find that their liability to initial, periodic and exit charges is in fact nil. We will be watching the position very closely and will write again when the position is clearer. This may be some months away. If you have any concerns please speak to your normal Hillier Hopkins' contact.

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