



Variation Trust

You may, during your lifetime, become entitled to funds from a deceased relative or friend. These funds will increase your personal estate for Inheritance Tax purposes at a time when you may be considering ways of mitigating the tax burden on your own death.

Strategy

A significant Inheritance Tax liability may be avoided if, within 2 years of the death of the deceased, you exercise a Deed of Variation to create a discretionary trust. The deed allows the deceased's executors to redirect your entitlement under the Deceased's Will to the discretionary trust and consequently for Inheritance Tax purposes the deceased is deemed to have created the trust. This means that unlike a discretionary trust created by you in your lifetime you can benefit from a trust created under these circumstances, although income and capital gains tax consequences should be considered.

This is an extremely efficient way of avoiding an unnecessary Inheritance Tax liability on your death but allowing you to benefit from the assets during your lifetime.

Advantages

- IHT saving on your death.
- Flexibility. You can include a large number of beneficiaries and the Trustees can decide who can benefit at a later date.
- Maintenance of control. You can be a Trustee or direct the Trustees with a Letter of Wishes.
- The trust can be an effective way to "skip" a generation for Inheritance Tax purposes.
- Potentially make use of several income tax and capital gains tax allowances on distribution (particularly if there are children in the class of beneficiaries).

- You can benefit from the trust yourself.
- The trust can be created even if the estate has been concluded, provided that it is done within 2 years of the death.

For further information contact

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