Ipsos MORI
Social Research Institute

Exploring the Use of Trusts

Ipsos MORI

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Glossary of terms

Bare Trust	Assets in a bare trust are held in the name of a trustee. However, the beneficiary has the right to all of the capital and income of the trust at any time if they're 18 or over.
Beneficiary	A person who benefits from a trust.
Capital Gains Tax (CGT)	Capital Gains Tax can be applied on the profit ('gain') of an asset when it is taken out of or put into a trust.
Discretionary Trust	A trust where the trustees have the discretion to pay capital or income to any beneficiary or class of beneficiaries nominated by the settlor.
Entrepreneur's Relief	Entrepreneurs' Relief reduces the amount of Capital Gains Tax on a disposal of qualifying business assets as long as it meets the qualifying conditions throughout a one-year qualifying period either up to the date of disposal or the date the business ceased.
HMRC	HM Revenue & Customs.
Income Tax (IT)	Different types of trust income have different rates of Income Tax. Depending on the type of trust either the trustee or the beneficiary will be responsible for ensuring that Income Tax is paid on trust income.
Inheritance Tax (IHT)	Inheritance Tax can be applied to trusts in the form of entry charges, 10-year anniversary charges and exit charges if the assets are above the IHT nil rate band. If a settlor dies within seven years of transferring assets into trust, these can be treated as part of the settlor's estate and IHT can be applied.
Interest in Possession (IIP) Trust	A trust where the trustee must pass on all trust income to the beneficiary as it arises (less any expenses).
Trust 10-year anniversary charge	Inheritance Tax is charged at each 10-year anniversary of the trust. It's charged on the net value of any relevant property in the trust on the day before that anniversary. Net value is the value after deducting any debts and reliefs such as Business or Agricultural Relief.
Trust entry charge	Inheritance Tax must be paid on assets put into trust valued above the IHT nil rate band (£325k in 2016/17). If the trustees pay this charge, the rate of tax is 20%.
Trust exit charge	Inheritance Tax is charged up to a maximum of 6% on assets transferred out of a trust.
Trustee	A person who manages a trust.
Settlor	A person who puts assets into a trust.
Will Trust	A will trust is any trust (typically IIP or discretionary) created by an individual's will. It comes into effect on the testator's death.

Exec Summary

Background

- A trust is a way of managing assets such as money, investments, land or buildings for other people. Each type of trust is taxed differently, affecting liabilities such as Income Tax (IT), Capital Gains Tax (CGT) or Inheritance Tax (IHT).
- The overarching aim of this research was to understand what motivates settlors to use trusts both in the UK and offshore and to explore the extent to which tax planning influences or drives these behaviours.
- Ipsos MORI conducted 40 interviews with agents who assist settlors with setting up trusts and 20 interviews with settlors of trusts. The interviews were conducted by telephone and face-to-face. In some cases, agents are also registered as trustees; however, the focus of this research is to understand settlor motivations.

Settlor awareness and understanding of trusts

- Settlors generally had very limited knowledge of trusts before setting one up, and even those with some knowledge still needed significant guidance from a professional when deciding to set one up.
- Settlors' understanding of their trusts depended on the complexity of their trust, quality of information provided by their agent and their level of engagement with this information. Some settlors were unable to say what type of trust they had or what charges the trust needed to pay.
- Agent advice was heavily relied upon by settlors. Settlors were often prompted to use a trust on the advice of an agent and the type and structure of the trust was decided by the agent. The skill and experience of the agent impacted on the settlors' understanding of their trust and how effective their trust was in meeting their objectives.

Why do settlors decide to set up trusts?

- Settlors' reasons (as explored with settlors and agents) for setting up a UK based trust mainly fell into four categories:
  - Protecting assets from people: including beneficiaries and other relatives. Settlors wanted to ensure that assets were kept safe and not lost through divorce or poor management/decision making of the beneficiary.
  - Protecting assets from taxes and other costs: trusts are used to minimise tax liabilities, IHT in particular and to protect a settlor's home from care home fees.
  - Control: a trust allows a settlor to secure their assets for a beneficiary but still retain control over it.
  - Flexibility: a trust allows a settlor to respond to changing circumstances and needs within their family.

- Agents[1] provided the following reasons for use of offshore trusts:
  - Privacy: use of an offshore trust in order to gain anonymity to prevent others from knowing what they own.
  - Control: holding assets across different countries so they are not lost as a result of a single country-specific 'event'.
  - Flexibility: a settlor may not be intending to remain in the UK and so leaves their assets in their home country.
  - Protecting assets from tax: settlors aim to minimise the amount of tax they need to pay.

What types of trust are used?

- Discretionary and Interest in Possession (IIP) trusts are the most commonly used in the UK. Agents expressed the view that since the changes to trusts taxation legislation in 2006[2], these have been the main types of trust available that would fulfil most settlors' purposes without exposing them to higher charges or tax liabilities.
- Discretionary trusts were used to achieve a wide variety of objectives, as they were the most flexible trust that settlors could access. Discretionary trusts allow settlors to put assets into trust without setting absolutes of who would benefit or when. Their flexibility was central to why they were used so frequently by settlors.
- IIP trusts were less flexible than Discretionary trusts and are only used when a lifetime interest in the trust is needed. Therefore, this type of trust is only used when a settlor wants someone, typically their spouse, to benefit from the trust during their lifetime and then for assets to be passed to other beneficiaries, typically the settlor's children or grandchildren.

What impact did the current tax regime have on behaviour?

- Agents tended to emphasise the personal reasons that settlors had for setting up UK based trusts and said that there were no tax benefits in having one. While personal factors were important, settlors also placed importance on perceived tax benefits, and on reducing IHT in particular through use of the IHT nil rate band.
- Reducing IHT liability was a key driver for settlors in setting up trusts. Reductions in CGT and IT liability were more commonly perceived by settlors as benefits to having a trust, rather than a driver to set up a trust.
- Agents who dealt with UK based trusts believed that the use of offshore trusts was more commonly motivated by tax planning than UK based trusts.

[1] Only two interviews were conducted with settlors of offshore trusts, therefore the vast majority of the evidence comes from interviews with agents

[2] Finance Act 2006 set out changes to the inheritance tax (IHT) regime for trusts, with effect from 22 March 2006.

What impact did costs and tax have on management of trusts?

- There were two elements in particular that influenced agent costs and therefore impacted on how the settlor decided to manage their trust;
    - The type and value of assets in trust; if the assets needed more active management, such as investments, shares and bonds then they were more likely to incur higher agent costs. Equally, certain assets, such as the ones listed previously would be more likely to need a professional trustee to manage them.
    - How much control the settlor wanted to maintain over the assets; settlors were keen to maintain as much control as possible over the assets and were happy to pay additional costs to secure this.
- Settlors commonly put an amount up to the IHT nil rate band into trust, so they could avoid the 20% entry charge.
- Awareness of the 10-year anniversary charge varied, but settlors generally fell into two groups; those who were aware of the charge but not of any finer details of what this would be, and those who were completely unaware of any ongoing charges.

1 Background and methodology

Introduction

This report contains findings from qualitative research conducted with settlors of trusts and with agents who have helped to set trusts up. The research was undertaken by Ipsos MORI Social Research Institute on behalf of HM Revenue & Customs (HMRC). In this introductory section we set out the:

- Context of the research and objectives;
- Methodology;
- Sampling and recruitment;
- Limitations of the research and interpretation of data.

Research context and objectives

A trust is a way of managing assets such as money, investments, land or buildings for other people. Discretionary and Interest in Possession (IIP) are the most commonly used trusts by individuals, in the UK. A Discretionary trust is one in which trustees generally have control over how to use the assets of the trust, for example, the trustee, rather than the settlor may have discretion over the number of shares of each beneficiary. An IIP is one in which a beneficiary has a current legal right to the income from the trust as it arises.

Trusts that generate income (or gains) may need to complete an income tax return under the HMRC system of Self-Assessment, and may need to pay tax. The trust tax teams in HM Revenue and Customs (HMRC) are responsible for specialist areas of taxation, including trusts.

In order to ensure that our trust taxation system is fit for purpose, HMRC need to understand how and why trusts are currently used. The overarching aim of this research was to understand what motivates settlors to use trusts both in the UK and offshore and to explore whether tax planning influences or drives these behaviours.

The research sought to answer the following questions:

1. What are the motivations for setting up a trust and how do motivations differ depending on the type of trust used? What drives the decision behind setting up trusts offshore or in the UK?
2. What types of trusts are set up? Why are IIP and discretionary trusts the most predominantly used?
3. What are the relationships between the settlor, beneficiaries and trustees and how does this affect decisions about the type of trust set up and how it is managed?
4. How are trusts set up and what costs are associated with this? What are the tax benefits of creating a trust and how does this compare to costs? How does the IHT entry charge and 10-year anniversary charge influence behaviours? What are the motivations for moving assets into and out of trusts?

5. What impact does the current tax regime have on decisions? Do settlors react differently to changes in CGT, IHT, and IT rates and threshold changes? Which of the taxes, if any, has the greatest influence on behaviours and decision making?

Methodology

Ipsos MORI conducted 40 interviews with agents who assist settlors with setting up trusts and 20 interviews with settlors of trusts. To ensure that the research was convenient to those who took part, agents and settlors were given a choice about the mode of interview. Of the 40 interviews with agents, 26 were conducted by telephone and 14 were conducted face-to-face. Of the 20 settlor interviews, 17 were conducted by telephone and 3 were conducted face-to-face. Interviews took place between 6th October and 6th December 2016. Each interview lasted for up to one hour and was conducted at a time that suited the participant.

When conducting the interviews, a semi-structured discussion guide was used to ensure all relevant topics and key issues were explored consistently, while also enabling the interviewer to delve deeper into any issues of particular importance for the participant. This can be found in Appendix B.

As is common practice in qualitative research an incentive was offered to encourage participation. Agents who participated in the research were offered £50 either in cash or as a donation to a UK registered charity of their choice. For settlors who participated, a £50 donation was made to a UK registered charity of the participant's choice as a gesture of appreciation for their time and contribution to the research.

Analysis of the findings was conducted throughout the fieldwork period using an analysis framework in qualitative analysis software, NVivo 10 in which interview transcripts were coded against key themes as research questions.

Sampling and recruitment

The sample for agent interviews was generated in two ways:

- HMRC's Agent Update, a bi-monthly newsletter to engage agents, and STEP's (Society of Trust and Estate Practitioners) newsletter were used to make agents aware of the research. Agents who were interested in taking-part were directed to Ipsos MORI for further information.
- HMRC Trust records were used to gather further agent sample. Details for around 900 agents were provided by HMRC and each agent was sent an advance letter by Ipsos MORI, which outlined the research and provided guidance for opting-out of further contact with the research team.

The settlor sample was provided by HMRC and each settlor was sent a letter by HMRC to notify them of the research and give them the opportunity to opt-out before their details were provided to Ipsos MORI.

Recruitment was conducted by Ipsos MORI executive recruiters who contacted individuals by telephone in order to explain the research and conduct a short recruitment questionnaire before arranging an interview. The recruitment questionnaire was used to ensure that sampling criteria were met.

A small number of quotas were put in place to ensure that we spoke to a range of agents and settlors. The agent interviews included a mix of agent business size, types of trusts managed and the number of trusts managed. The interviews with settlors covered a spread of different types of trusts (Discretionary/IIP), UK-based and offshore trusts, tax paying and non-tax-paying, as well as trusts of different values and types of assets invested. A large proportion of the settlors interviewed were older and/or close to retirement age. This could be for a number of reasons including that these individuals are more likely to have accumulated wealth, or, to be thinking about how assets should be left upon death. Full quota details for agent and settlor interviews can be found in Appendix A.

Limitations of the research

It is important to note that there were a number of challenges encountered during recruitment and fieldwork which have impacted the data collected. These challenges and the impact they have had on the research are outlined blow.

- Settlor sample: the sample of settlors was limited to trusts set up in the past two years. This was due to the sample being difficult to pull together. The trust records were in paper form and needed to be transferred into an electronic format to create the sample. The impact of this sample limitation was that discussions about ongoing charges and changes to trusts were limited. However, some settlors had multiple trusts, some of which were much older and therefore had experienced ongoing charges (including the 10-year anniversary charge).
- Settlors with offshore trusts: a small sample and language barriers during recruitment meant that only two interviews with settlors of offshore trusts were conducted.
- Settlors lack of understanding of trusts - settlors generally had limited knowledge of their trust and how it worked, which had an impact on their understanding of the tax implications and possible benefits.
- Lack of openness from agents, which could lead to bias - agents seemed keen to focus on certain elements during the conversation and some communicated concerns about possible impacts of the research on trust policies and rules.
- Interpretation of data – the impact of researcher bias on the research findings

Qualitative research is illustrative, detailed and exploratory. It seeks to understand not only what people think and do but why this is the case. The volume and richness of the data generated allows for a detailed picture to be developed of the range and diversity of views, feelings and behaviours and this can be used to develop new concepts and theories. The findings in this report are intended to provide insight into the views of agents of settlors but the purposive nature with which the sample was drawn and small number of interviews conducted means that they cannot be considered representative of these audiences as a whole.

2 Settlor awareness and understanding of trusts

Introduction

This chapter explores how settlors became aware of trusts and how well they understood trusts before and after setting one up, including key aspects of trusts that are not well understood. It also outlines the key sources for information about trusts as well as the role that agents play in informing settlors and influencing their decisions about trusts.

Awareness and understanding of trusts

At the most basic level, awareness of trusts is high. The settlors had heard of trusts before they set one up and agents reported that their clients are familiar with the term when they first begin discussions about setting one up. However, while settlors were aware of the existence of trusts before they set one up, awareness of what they are used for and understanding of how they work varied.

"I knew they protected assets beyond the person's life, that they were protected against certain taxes…but not really much. Nothing in any detail, just a general awareness of that sort of thing."
Settlor, UK based discretionary trust

The following factors, identified in both agent and settlor interviews, seemed to influence settlor understanding prior to setting up a trust. Settlors with at least one of these sources of knowledge or experience tended to know more about how a trust could work for them before they went to an agent to discuss setting one up. The factors were:

- Previous experience of trusts – settlors who had previously been beneficiaries or trustees of family trusts were much more knowledgeable about their uses than those who had not.
- Use of financial advice – agents reported that settlors who had regularly sought financial advice, as either a business or individual, tended to have a better understanding of trusts before they came to setting one up.
- Settlor's professional background – settlors with a relevant professional background such as solicitors and accountants reported having a good understanding of the uses and workings of trusts before they set one up.

A further, overarching factor here is quality of the experience, advice or knowledge that settlors had. While a settlor may have had first-hand experience of a trust, been an accountant for many years or been given advice about trusts from an agent, that did not mean that they would have an accurate understanding of how trusts currently work or whether a trust was appropriate for them.

This point was emphasised by agents who reported that the complexity of trust law meant that most people did not fully understand how they worked unless they dealt with them day-to-day, regardless of their previous work or experience. Generally, agents said, while some settlors did know more than others, the starting point in setting one up was generally the same, to ensure that the settlor understood how a trust could work in their specific circumstances and to overcome misperceptions they might hold about what trusts are for.

"They're not really sure why it's a good idea and so one of the very first questions I tend to have to deal with is, what is a trust and do I actually need one?"
Agent, UK based trusts

Settlors' level of understanding of their own trust also varied from those who were unable to provide any information about their trust, including trust type or taxes to be paid on it, to those with an understanding of the finer details of how their trust was managed. A key aspect that many settlors seemed unsure of was the tax liabilities of their trust. This included their awareness and understanding of IHT entry charges, 10-year anniversary charges, exit charges as well as whether and how Income Tax or Capital Gains Tax would be payable.

The factors that seemed to influence the level of understanding a settlor had of their trust were:

- Agent advice and information – settlors were heavily reliant on agent advice and information about how their trust worked and the tax arrangements for it. This is explored later in this chapter.
- Settlor engagement – settlors who were trustees of their trust, or took a keen interest in how it was managed, tended to have a better understanding of their trust, including tax arrangements. Some agents did report that settlors with higher value trusts tended to be more engaged but it is unclear what might drive this. It may be that settlors with higher value trusts place more importance on it, they may have more support and resources to draw on, or it could be down to personality factors such as the desire for control over their finances. Value itself did not seem to be driving factor as the act of placing assets into trust highlighted their importance to the settlor regardless of relative value.
- Complexity of trust – some trusts were simply easier to understand than others, due to the type of trust, the assets it holds and the taxes it is liable for. For example, a trust made as part of a will holding assets that did not generate income and are valued under the IHT nil rate band threshold, is likely to be more straightforward and easier to understand than an active trust holding a range of assets with tax liabilities to manage.

However, while understanding of trusts did vary between settlors, it is important to note that all settlors reported some uncertainty about aspects of their trust that they either left to a professional trustee to handle or had not yet needed to engage with, such as the 10-year anniversary charge. In addition, both settlors and agents reported that the regular changes made by HMRC to the taxes that affect trusts meant that it could be difficult to stay up-to-date with the details or to predict what tax liabilities might exist in five or ten years' time.

Sources of information

A number of information sources were used by settlors before they set up their trust. The type of sources used depended on settlors' existing circumstances and whether they already knew that a trust might work for them or if they were prompted to consider one by someone else.

Settlors who had an existing agent such as a solicitor, financial advisor or accountant, tended to turn to them first. This included settlors who were already considering a trust and wanted to find out more about whether one would be appropriate for them as well as settlors who had a broader aim in mind and were prompted to consider a trust by their agent to achieve it.

"I was using a financial advisor for my own investments, effectively, so as part of the routine discussions I just phoned him up and said, hey, look, I'm looking to do this, can we get together and tell me what you think?"
Settlor, UK based discretionary trust

Settlors who were considering a trust but did not have an existing agent sought information online to find out whether a trust could work in their circumstances and what type of trust they might need. Agents reported that while online sources could be helpful, the complexity of trusts and varying levels of quality of information available meant that some settlors came to them with misconceptions about how a trust could work for them.

The media was also mentioned by both settlors and agents as a prompt for considering trusts. Many agents discussed how routine stories in Sunday newspapers which promoted trusts as a means to minimise Inheritance Tax (IHT) liabilities or to avoid paying care home fees would prompt a flurry of inquiries by people looking to set one up.

This concerned some agents who said that the media often misrepresented the nature of trusts and how they could be used to avoid taxes and care home fees in particular. These agents said that they often spent time talking potential settlors out of setting up a trust as it would not be appropriate for their circumstances but they were aware that other agents may be less inclined to do this.

I think a lot of media…[have] a lack understanding of what trusts are for. People do just see trusts as a tax dodge whereas, as I say, actually they're often less tax efficient than an outright gift. And I think if the media fully understood that they probably wouldn't be as hot on them.
Agent, UK based trusts

The role of agents

The role of the agent in a settlor's decision to set up a trust cannot be over-estimated. The complexity of trusts means that even settlors with a good understanding of them still lack a lot of knowledge about how a trust should be set up and managed effectively.

This meant that agent advice was critical and highly influential for settlors and that trust in their agent was key. Settlors tended to say that they trusted the agent they dealt with, otherwise they would not have set up the trust. Agents were relied on for advice about whether a trust was appropriate for the settlor's circumstances, the type of trust they needed and the way the trust should be structured and managed to minimise costs and risk to the settlor.

"I was fairly open to it in that I'd worked with him for a number of years, so trusted and respected him, and I don't think he was actively pushing it too hard, but it was his solution or one of the, or the main solution, probably the only solution really."
Settlor, UK based discretionary trust

The importance of the agent's role was seen most clearly in situations where a trust had not had the desired outcome for the settlor. Some settlors who had previous experience of trusts discussed poor experiences of agent advice including the type of trust used, the management of assets in the trust, the costs of running the trust and with the setting up of a trust in the first place. These issues only became apparent to the settlor at a later date either when something went wrong or, more commonly, when another adviser informed the settlor of them.

"It's very easy to be wise with hindsight, with hindsight I think we would have chosen a different path. I think, I don't know if we would have gone into trusts at all but I think we might have done it not dealing with the same firm"
Settlor, UK based discretionary trust

The issue of a trust not achieving what was hoped, or incurring high costs, was also raised by agents. Some agents discussed the poor advice of other agents and the impact this could have on settlors, with those who did not have an existing agent being particularly vulnerable to this as they would be reliant on one person or firm to guide them.

However, agents also stressed the point that trusts are complex and that even professionals can sometimes struggle to make the right choices about them and predict how changes to legislation and taxes might affect them in future. These risks, they said, were present in most trusts and their role was to manage these risks as effectively as possible and ensure that their clients were aware of them. For this reason, some agents said that it was often easier to convince a potential settlor that a trust was not right for them than it was to convince them that it was.

"My job as an advisor is to guide the clients, or in some cases guide my colleagues through which of these quirks are going to give them a disastrous result from a tax point of view, and which of them are going to be reasonably safe and therefore preserve the trust assets for the beneficiaries, which is after all the object at the end of the day."
Agent, UK based trusts

3 Why do settlors decide to set up trusts

Introduction

This chapter explores settlors' motivations for setting up trusts. It includes settlors' reasons for setting up their trusts as well as agents' perspectives on their clients' motivations. It also explores motivations for setting up offshore trusts and how these differ to UK based trusts.

Settlors' motivations for using UK based trusts

Trusts are seen as a means to an end. They are set up to either achieve a particular outcome for a settlor or to assuage a concern. Settlor's reasons for setting up their trust tended to fall into four categories:

- Protection from people: trusts are used to protect assets from other people, including beneficiaries and other relatives.
- Protection from taxes and other costs: trusts can be used to minimise tax liabilities, IHT in particular or to protect a settlor's home from care home fees.
- Control: settlors set up a trust because they want to pass on their assets but they do not want to do so immediately. A trust allows a settlor to secure their assets for a beneficiary but retain control.
- Flexibility: trusts can be more flexible than a will. A trust allows a settlor to respond to changing circumstances and needs within their family.

Protecting assets from people

Settlors wanted to pass on their assets to their loved ones but they also feared the potential consequences of this. The two concerns here centred on beneficiaries mismanaging or wasting the assets they were given or of family assets being lost through divorce or a beneficiary's will.

"There were stories about people who have left money to family due to death or divorce, there'd been some remarriages and the money had all gone in completely different directions and we didn't want that to happen"
Settlor, UK based discretionary trust

Settlors and agents said that a good reason for using a trust rather than gifting assets was that a settlor could ensure that beneficiaries did not receive assets when they were too young or too unstable to manage them effectively. Agents said that the ability to set the age at which a beneficiary could benefit from the trust was an appealing feature to settlors who did not want their children or grandchildren to get too much too young, commonly an age of mid- to late twenties was set although some settlors did set a higher age if the trust was of particularly high value.

"Our sons at the time were in their 20s and relatively unsettled, one had been quite ill with clinical depression, the other one was taking a very long time over a degree and neither of them were obviously reliable at that stage so we didn't actually want to pass on a great deal of money to them"

Settlor, UK based discretionary trust

The fear that assets could end up going to someone outside of the family was a significant factor for settlors. For example, they worried that beneficiaries may make a poor marriage choice and lose half of the assets through a divorce. A trust enables a settlor to keep assets out of the beneficiary's estate, as well as their own, and ensure that assets would go to the people the settlor wanted. Trusts also allow different beneficiaries to benefit from the same asset at different times. This, agents said, had become particularly important in recent years due to the number of people who remarry. A trust allows a settlor's partner to benefit from assets during their lifetime without giving them ownership of those assets so that ultimately, the assets can be passed to children or grandchildren. This alleviated concerns that settlors had about their partner re-marrying after their death or of leaving the settlor's former assets to someone else.

"My children are not from my wife, and my wish is that while my wife is alive, the full benefits of my estate would be for her benefit but that my half of it would be decreed on my death, or my half of whatever is left would be for the benefit of my children, so that effectively it can't be given away to somebody else."

Settlor, UK based discretionary trust

Protecting assets from tax and costs

Settlors were conscious of their potential IHT liability and were open about their attempts to reduce this. A key reason for setting up a trust was to make use of the IHT nil rate band, which allowed them to place assets up to the threshold into trust with no IHT charge. To settlors, whose aim was to protect their assets for their beneficiaries, this was seen as a sensible thing to do and alleviated concerns they had about assets being diminished or family members struggling to pay an IHT bill without selling the assets.

"It was for the benefit of my two children with the avoidance of having to burden them when I die of further inheritance tax"

Settlor, UK based discretionary trust

This was generally a concern for settlors whose estate was valued over the IHT threshold at the time they opened the trust. For example, a settlor with an estate valued at £500k, could split their assets between their estate and a trust, bringing both below the IHT threshold[3]. Settlors who used a trust for this reason said that if the nil rate band for IHT were higher, then they would have been unlikely to have opened their trust.

[3] This only holds true if the settlor survives for seven years after the trust is opened. If the settlor dies before this time a tapered IHT will need to paid on the assets in both the trust and their estate.

"I had a situation where I was mainly looking at what I can do with the money so the government doesn't get it, basically. So I consulted people about what's the best way of thinking about the future and tax planning basically"
Settlor, UK based discretionary trust

Care home fees seemed to be a particular concern for settlors with lower value assets, whose estates would not be subject to IHT. These settlors tended to only have their home and a small sum of money in the estate and they feared that if they were subject to care home fees then it would all be lost in costs with nothing left for their intended beneficiaries. Agents discussed some concerns they held over trusts set up for this reason, explaining that the settlor's circumstances often meant they were unnecessary and costly to settlors. They also reported that these trusts were sometimes structured inappropriately, meaning that they could be challenged by local authorities.

Control

Some agents reported that the desire for control could be so strong for some settlors that they would use a trust for this reason alone and even be willing to pay more in tax and costs to maintain this control. A key reason for putting assets into a trust, as opposed to simply gifting them to beneficiaries, was that the settlor wanted to pass on their assets eventually, but wanted to retain control over them in the meantime. Control was linked closely with concerns about protecting assets from people but it was sometimes desire simply for its own sake – some settlors like to feel in control of their assets and in some cases of the beneficiaries.

Gifting assets directly meant that the settlor would immediately lose all control over those assets and while a will would allow a settlor to control their assets until their death and decide who gets them, they would not have any control over how they would be used. A trust would allow these settlors to retain some control over the assets in their lifetime and to some extent control how they would be used after their death by instructing trustees of their wishes. Examples here included what the assets could be used for, as well as the behaviours of beneficiaries in order to access them.

"The purpose of the trust is to provide for financing the education of our grandchildren so that whatever happens to us it ensures that the money will go to them and it's timed so that it'll give them support with their education, particularly university fees"
Settlor, UK based discretionary trust

Control seemed to be a motivation for wealthier settlors, particularly those who intended their trust to last for many years or generations.

Flexibility

Settlors wanted their assets to be of most use to their family and this included ensuring that assets went to those who needed them and that new additions to the family could be catered for. While it was possible for settlors to manage this through updating their will, this was inconvenient and could only provide flexibility up until their death. By placing assets into trust, a settlor could, through their letter of wishes, ensure that further grandchildren or great grandchildren were provided for and that trustees could make decisions about how the assets could be used to maximum effect.

The one drawback of trusts in terms of flexibility was that once the assets were put into trust, the settlor no longer owned them. This meant that settlors needed to think carefully about what assets they could live without or whether they needed a lifetime benefit of them.

Agents' views on settlor motivations

The motivations discussed by settlors and agents were similar, however the two groups put emphasis on different motivations for setting up trusts. Generally, agents said that settlors had personal reasons for setting up their trusts, such as protecting from people, flexibility and control. They reported that settlors did not set up trusts for tax reasons and that if tax was a consideration, it was always a secondary factor. Indeed, some said that UK trusts were fairly punitive in terms of tax and that this was accepted in order to meet a personal aim.

However, settlors did discuss the role of tax differently. While tax planning was not necessarily the sole motivation for setting up a trust, it was a factor that settlors considered and discussed in detail. The aim of minimising IHT liability was given by some settlors as the main reason for setting up their trust and others described it as an important secondary factor.

It seems that the key here is the different perspectives that agents and settlors have on the alternative to setting up a trust. Agents tended to discuss trusts as an alternative to gifting assets, and from this view, there were no real tax benefits to putting assets into trust but settlors did so to meet a personal objective. Settlors, on the other hand, did not seem to have given serious consideration to gifting their assets [because they didn't want to lose control of them whilst alive], their alternative was to leave the assets in their estate which would leave them subject to IHT [or care home fees]. Settlors believed that a trust allowed them to access an additional, or a number of additional IHT allowances, which could either take their assets out of IHT completely or at least minimise their liability.

These different views may account for the apparent contradictions between evidence from agents who reported that there are no tax benefits to trusts and from settlors who perceived that they were reducing their tax liability. It is also worth noting here that settlors had a very limited awareness and understanding of the ten-year anniversary charge and ongoing charges, which meant they did not always seem aware or clear about all of the tax and costs they would be paying throughout the lifetime of the trust.

Why are offshore trusts used?

As outlined previously, the data for this section is mostly derived from agent interviews.

To have an offshore trust a settlor must be non-domiciled in the UK or a UK-resident with all or the majority of the trustees resident overseas. When discussing the use of offshore trusts, agents tended to focus on non-domiciled settlors and their motivations for using offshore trusts. Discussions of UK-domiciled settlors was limited although it was not always clear if this was because the agent had not dealt with such clients or if they wanted to avoid discussing them. They outlined the following reasons for setting up an offshore trust:

- Privacy: agents said that settlors may use an offshore trust in order to gain anonymity for their assets to prevent others from knowing what and how much they own. They described this as a concern for very wealthy settlors such as celebrities or those who fear drawing attention to their wealth.

  "If you're a wealthy Russian, you may want to not let the world know that you own this huge property in the middle of London, or you're a wealthy Arab or whoever it is, there's the security issues there. "
  Agent, UK and Offshore trusts

- Control: as with UK based trusts, control was also a concern for settlors with offshore trusts who wanted to pass on their assets while retaining some control over them. In addition, agents reported that some settlors with offshore trusts also wanted to ensure that their assets were spread around several countries so that no one government could control them. The concern here was that natural, political or social events in one country could lead to assets being lost and so these settlors wanted to spread their risk across countries to control their assets.

  "Some of them, have not done it for any sort of tax reason, it's, they live in a jurisdiction that isn't too secure and they use trusts as a wealth holding vehicle."
  Agent, UK and Offshore trusts

- Flexibility: again, as with UK based trusts, settlors can gain flexibility by using an offshore trust. This included non-domiciled settlors being able to leave assets in trust in their home country while living in the UK as they were unsure of how long they would be away and did not want to cut all ties with their previous location, as they may return at a later date.

  "You expect and want to generate significant assets which gives you the flexibility of deciding where you're going to actually end up and I continued to hold assets in South Africa which was my home base basically."
  Settlor, Offshore trust

- Protecting assets from tax: agents said that the high UK tax rates and the presence of taxes such as Inheritance tax and Capital Gains Tax meant that the UK was not seen as a desirable place to hold assets unless the settlor was obliged to. This meant that non-domiciled settlors would simply choose a better tax environment for their assets. They also said that families living across the world benefited from placing assets into a trust in a low tax country so that beneficiaries would only need to pay the taxes due in their country of residence.

"They don't want to prejudice everybody by having a structure in one location that is suitable for some people and not others."
Agent, UK and Offshore trusts

As with UK based trusts, the extent to which tax planning was a factor was unclear. Agents dealing with UK based trusts suggested that offshore trusts were mainly used for tax planning purposes, whereas agents who dealt with both UK and offshore trusts placed more emphasis on the more personal reasons for them. Discussions also mainly focused on non-domiciled settlors rather than UK residents using offshore trusts. Agents' comments on UK resident usage of offshore trusts were that international disclosure agreements meant that they are rarely used anymore. There was some discussion of previous use of offshore trusts by UK residents through financial vehicles offshore but the agents reported that HMRC had prevented the use of such vehicles, thus closing down routes for placing assets offshore.

4 What types of trusts are used and why?

Introduction

This chapter will explore the types of trusts used by settlors and why certain trusts are more commonly used. We will draw on data from the agent and settlor interviews; however, it is important to note that as stated previously, settlors had a very limited understanding of their trusts and therefore some of the detail around these types of trusts had to be elicited from the agent interviews.

The most commonly used trusts were Discretionary and Interest in Possession (IIP), although, Discretionary trusts were frequently favoured over IIP for their flexibility. Agents said that the reason that these types of trusts were the most popular was because since the 2006 tax legislation changes, other types of trusts were no longer tax advantageous and therefore there was seen to be more limited trust options for settlors.

"Well, so when I say that they're the ones I mainly deal with [Discretionary and IIP] the reason for that is, well if, there aren't really very many others, I don't know what other sorts, there are some subsets like bereaved minors trust is a specific, is a trust which has to meet certain conditions and trusts for disabled people, but these are rather minority sports as it were."
Agent, UK based trusts

As previously discussed, trusts were set up for a variety of reasons but settlors generally had one set objective/goal in mind that they wanted to achieve. This objective was then discussed in detail with their agent and the agent would provide them with information and guidance on which trust would be the right choice for them. Settlors heavily relied on and trusted agent advice. This advice was commonly the key deciding factor on what type of trust was set up. The key considerations discussed and isolated by the agent were;

- Do they know who they want to benefit from the trust?
- Do they still need to access or benefit from the asset?
- How much flexibility do they need built into the trust?

Discretionary Trust

Discretionary trusts were used to achieve a wide variety of objectives, as they were the most flexible trusts that settlors could access. Their flexibility was central to why they were used so frequently by settlors.

Settlors would come to an agent with an objective in mind but they may not be entirely clear on whom they wanted to benefit from the trust or when they would like individuals to benefit from the trust. For example, they may wish for their grandchildren to eventually benefit from the asset but may be uncertain about whether they will have further grandchildren and therefore they cannot currently name all of the beneficiaries. In these instances, agents would tend to recommend a discretionary trust because once it is set up it can be easily amended or managed in line with the settlor's wishes.

"The discretionary trust is more of the fact that it's a flexible mechanism, so it's flexible and it can accommodate pervading circumstances at that time."
Agent, UK based trusts

This flexibility was also seen as important for settlors who were unsure of when they wanted their beneficiaries to benefit from the trust. Settlors may be clear on who they wanted to benefit but not when they wanted them to benefit. For example, a settlor may have wanted their children to benefit from the trust but they did not believe they were ready or financially savvy enough to benefit from the assets in the trust, at that time. This trust type would then allow them to determine when and how the beneficiary would benefit from the trust.

Control was also key to why settlors decided to take out discretionary trusts over IIP trusts. A discretionary trust would allow a settlor to maintain some control over an asset and still be involved in the active management of the asset. Settlors being able to still control the asset meant that they would put the asset into trust and build the parameters for how and when the beneficiary would benefit later. A discretionary trust would also allow settlors to revise these parameters whenever they wanted, so if a settlor decided that one of the beneficiaries was not living the kind of life they wished them to, then they could remove this individual as a beneficiary or restrict how and when they would benefit from the asset. For example, settlors were frequently concerned about their children or grandchildren having relationship breakdowns and then people outside of their family benefiting from the assets.

"People who set up trusts generally do it to divest themselves of money for younger generations but in a way where they can still have some control over that and make sure that if anything goes wrong then the money doesn't disappear down the drain."
Agent, UK based trusts

Interest in Possession

It was evident that IIP trusts were less flexible than Discretionary trusts and tended to be used to achieve one specific objective.

IIP were commonly used by settlors who were married because the key purpose of the trust would be to guarantee that a spouse would have access to the assets in their lifetime, whether that be the settlor's half of a home or other assets. Then when the surviving spouse died the assets would be passed to the children, grandchildren or nieces and nephews. However, IIP trusts have more rigid structures and once the settlor has signed the trust deeds, there were limits to the changes that could be made. Therefore, this type of trust is only relevant to settlors who have a firm idea of who they want the beneficiaries to be and when they would like them to benefit from the assets.

Married settlors tended to use this type of trust to ensure that their children/grandchildren/nieces/nephews would eventually inherit the assets. Settlors feared their spouse may remarry after their death and the assets would end up being passed to a non-blood relative such as the new spouse's children, rather than their blood relatives - either children that they shared with their partner or children they themselves had from a previous marriage or relationship. There was also evidence that settlors believed they could help protect their homes from care home fees by setting up an IIP trust, as their half of the home would be in trust to their spouse and therefore it could not be sold and used to pay their care home fees.

"Protecting what they have for their children whilst providing for the surviving spouse during the surviving spouse's lifetime and making sure that everything that they've worked hard for during their life doesn't get redirected to a third party whether intentionally or non-intentionally."
Agent, UK based trusts

Will Trusts

Agents considered Will Trusts to be either a Discretionary or IIP trusts that had been built into a will and became active on the settlor's death. It was not seen as being a type of trust in itself but an element of either a discretionary or IIP trust. This statement from agents again supports their perspective that IIP and Discretionary trusts are not the most commonly used trusts but the only trusts that currently exist for most settlors.

Bare Trusts

The structure of a Bare Trust was very rigid, as they could only be used to pass assets to a minor. The asset would be put into trust for the minor and be passed to them once they legally became an adult at the age of 18. The age of receipt is set and cannot be amended within a Bare Trust, which is why a settlor may choose a different form of trust such as a Discretionary trust, so they can increase the age at which the minor will be able to benefit from the asset.

"A bare trust is what occurs, by operation of law, any time a beneficiary is unable to legally give receipt for an asset. So you would have a bare trust for example where money is left to a minor, the minor cannot legally take that money and so a bare trust arises, you don't need to draft a bare trust, there's no special form for that, and the bare trust ends as soon as the beneficiary is able to give good receipt."
Agent, UK based trusts

5 Impact of current tax regime on settlor behaviour

Introduction

This section will explore the impact of the current tax regime on settlors' motivations to set up a trust. The data discussed in this chapter is drawn from the settlor and agent interviews. The drivers of settlor behaviour were discussed in different ways by agents and settlors and we will explore these diverse perspectives in this chapter.

Agents typically reported that settlors were driven by personal objectives and not by reducing their tax liabilities. If tax planning was taking place, then this was very much a secondary factor to their personal reason for setting up the trust. Agents stated that one of the key reasons for settlors not taking out a trust for tax planning purposes was because there was no tax benefit of taking out a trust. Agents reported that the changes to trust tax legistlation in 2006 meant that the tax benefits that existed previously no longer exist and therefore the only reason that settlors would set up a trust, would be to achieve a personal goal.

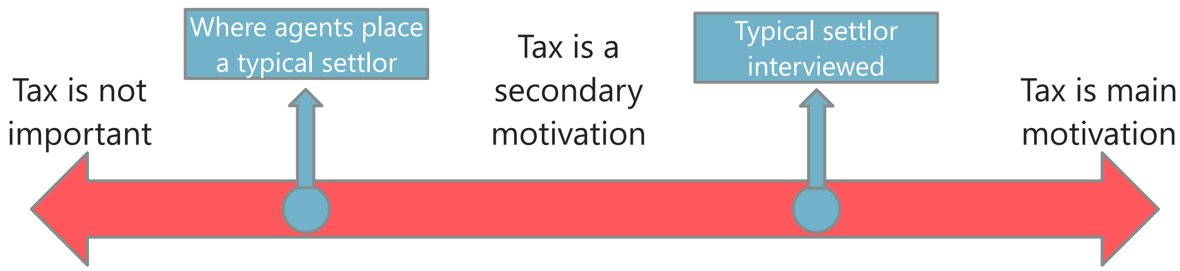
Conversely, settlors put more emphasis on tax as being a driver for setting up a trust. They typically had a personal objective that they wanted to achieve but they openly discussed tax as a consideration. The extent to which tax was considered varied but some settlors were clear that it was a key factor in the decision making process, whereas agents were adamant that settlors did not take out trusts to reduce their tax liabilities.

The key point of difference in these views lies in what the agent or settlor is comparing the trust to. Agents compared taking out a trust to just gifting the money to the beneficiary of choice. From this perspective, there was no tax benefit to be gained from a trust because if the settlor had gifted the money and survived seven years then there would be no tax to pay. The money would be moved out of their estate and given to the beneficary. However, settlors were not comparing a trust to gifting money, as they did not see this as a viable option. They did not want a beneficary to own the asset outright at this point for a multitude of reasons and therefore this was not the alternative that they were comparing the trust to. Settlors were comparing setting up a trust to leaving the assets in their estate, where they would be passed onto beneficiaries on their death, meaning that IHT would be payable.

Tax planning spectrum

As mentioned previously the extent to which settlors considered their tax liabilities in their decision did vary, there seemed to be a spectrum on which settlors could be placed. The scale began with tax not being important in their decision making at all and ended with tax being the key motivation for setting up a trust. The settlors that fell in the middle of this spectrum were individuals that had a personal objective that they wanted to achieve but also considered the tax implications of taking out a trust. Discussions with agents placed the majority of settlors in between the beginning and mid point of the scale, whereas the evidence from the settlor interviews would place settlors inbetween tax being a secondary motivation and tax being a main motivation for taking out a trust. It is important to note here that the motivations of settlors did differ but the data did not show that this was driven by any key demographic differences, such as the level of wealth.

Figure 5.1: Tax planning spectrum



Tax is not important

Settlors who fell at the beginning of the spectrum were driven by personal reasons for setting up a trust and they were typically concerned about beneficiaries not using the asset in the way that they would wish. Therefore, a trust was felt to be the right format to achieve their personal objective. These settlors were not concerned about reducing their tax liabilities, they just wanted to ensure that their relatives benefited from the assets. For example, settlors wanting to pass on assets from their estate to their grandchildren, but they did not feel that the grandchildren were in the right place to be given the assets, either because they were still minors or considered to be irresponsible.

Case study – Tax is not important

Retired settlor. Took out discretionary trust with his wife to provide financial help for the education of their four grandchildren. They wanted to have control over the time and manner the money was spent, i.e. on further education, as they are conscious of how expensive University is. They spoke to a solicitor about setting up the trust, who advised them on which trust to take out. Did not really consider tax in the decision, as they just wanted security that the money would be spent appropriately by the grandchildren. Only spoke to a financial advisor a while after the trust was set up to see if it would be worth converting the cash into investments.

"There were stories about people who have left money to family due to death or divorce, there'd been some remarriages and the money had all gone in completely different directions and we didn't want that to happen."

Tax as secondary motivation

Settlors who fell in the middle of the spectrum were also focused on achieving a personal objective but they were mindful of the tax implications/perceived tax benefits of setting up a trust. Settlors with tax as a secondary motivation would not have set up a trust for this factor alone but being able to reduce their tax liabilities was something they considered and was an additional driver for them taking out a trust.

Case study - Tax as a secondary motivation

Retired settlor. Took out a trust for the assets she owns with her husband. As they don't have children of their own, the settlor wants her husband to benefit from the trust once she dies; once the husband dies, her nephews and niece will be the beneficiaries. Although the prime reason for taking out a trust was to ensure the money goes to her husband and then her nephews and niece, Inheritance Tax was taken into account.

"Well if we were to leave our estate to the nieces and nephews without taking Inheritance Tax into account then they would have quite a hefty bill."

Tax as main motivation

The final group on the spectrum is tax as a main motivation for setting up a trust. These settlors were predominantly driven by the desire to reduce their tax liabilities. Secondary factors of personal reasons and maintaining control over the asset were noted but the key driver to set up a trust was the objective of reducing their tax liabilities. IHT was the tax that most settlors referred to when they discussed wanting to reduce their tax liabilities and they believed that by using a trust they would be able to achieve this. Reducing CGT and IT were also mentioned but IHT was clearly the tax that settlors were most concerned about reducing/removing.

Case study – Tax is main motivation

83-year-old settlor. Started to look into trusts after his wife passed away. He started to the think about his own mortality and the impact of IHT on his estate. Took out trust for his assets (cash and bonds) in order to 'escape' Inheritance Tax.

"Well it was all triggered I suppose by the death of my wife, up to that time I hadn't thought of any estate planning but having to work my way through getting probate for her estate I began to think about my own mortality. I wouldn't say that it was an intent to cheat the taxman but having worked hard for 40 years to gather some seed corn I didn't want to see almost half of it disappear to the weevils, and 40% of it would have done."

Settlors who were keen to reduce their tax liabilities did not always believe that these taxes were legitimate and therefore they felt justified in trying to reduce these. This was particularly true of IHT and CGT. Some settlors did not believe that it was right that they had to pay 40% tax on their death. Equally, CGT was not always seen as legitimate for multiple reasons. The first being that it was perceived to be a relatively new tax and the second was settlors feeling unclear as to why they should have to pay tax on a gain on a property that they have owned for the last 20-30 years.

"So you're forced, you're driving down this road, you come across this huge great roadblock with a sign, signpost saying the road is blocked but you can get there only by going on this extremely roundabout route. So it's the fault of an over convoluted tax law that forces you into doing things that you wouldn't otherwise do."
Settlor, UK based discretionary trust

Agents that dealt with UK based trusts only, indicated that settlors who used offshore trusts would fall into this group, as their opinion was that offshore trusts were only used for tax planning purposes. They saw no personal reason for the use of an offshore trust, unlike a UK based trust. They were very keen to distance themselves from what agents who dealt with offshore trusts did because they deemed offshore trusts to be morally questionable in comparison to UK based trusts. Equally, the discussions with agents that dealt with offshore trusts did not provide us with much further insight, as they did not seem keen to talk about how a domiciled UK resident could use an offshore trust. Agents clearly stated that it was no longer possible for a UK resident to use an offshore trust because all of the previous loopholes had been closed down and disclosure agreements had been put in place. The information that could be derived from these interviews was predominantly focused on the usage of offshore trusts by non-domiciled UK residents.

"Yeah, years and years ago a lot of UK people set up foreign trusts, those were inevitably set up for tax reasons, but that went in the early '90s, I mean we're talking 25 years ago. UK, foreign trusts these days are nearly all set up by non UK people, either non UK resident or non UK domiciled."
Agent, UK and Offshore trusts

Perceived tax benefits to trusts

Reducing one's tax liability was a motivation for some settlors and they genuinely believed that they were either avoiding or reducing their tax liabilities by setting up a trust. As previously stated, agents did not agree with this sentiment and believed that this was a misunderstanding of settlors, as it was not possible to reduce an individual's tax liability through a trust, anymore. Therefore, the next sections outline the tax benefits that settlors believed they had managed to achieve/were possible through setting up and having a trust.

Inheritance Tax

IHT was seen as a key motivator for taking out a trust. Settlors believed that by setting up a trust they would be able to avoid IHT on their death. This belief typically came from settlors being able to put an asset under the nil rate band (currently £325,000) into a trust and there being no tax charge if they survived for 7 years. Therefore, they interpreted this as them being able to avoid IHT, even though they could have gifted the same amount or even more and not had to pay any IHT. However, as previously explored, settlors did not consider gifting as a viable option because this would not allow them to still be in control of the assets. They wanted to be able to pass on their assets but continue to be in control of how they were managed and used for a set period of time.

"It's all to do with inheritance because as I say I'm 80 years of age and I'm not going to last that much longer and if it weren't in trust it would therefore become part of the estate, as I understand

it. And would therefore be, the government will get 45%, I think. So they are the reasons really. It's tax efficient planning and looking after the kids for when they go through university."
Settlor, UK based discretionary trust

It is also important to note here that settlors did not understand or equate the anniversary charges as replacing the IHT bill on their death. They did not see these ongoing charges as something that would eventually equal the 40% IHT charge that would be payable on their death, had they not put the assets into trust. Therefore, their perception of a trust was that it was a vehicle for them to pass on their assets without paying any IHT.

Capital Gains Tax

Settlors saw the ability to hold over a capital gain, as a benefit to setting up a trust, some even thought that it was possible to completely avoid CGT by taking out a trust. Conversely, agents would argue that holding over the gain may be a benefit to having a trust but it only ever holds over the gain. The tax is not being avoided but just pushed down the generations, so the assets can be kept within the family.

A settlor provided us with an example of how CGT had been completely removed rather than just held over. For example, the settlors placed a house in trust and passed the property to the beneficiary through the trust. When the property was being placed into the trust CGT Hold-Over Relief was applied and therefore no CGT was to be paid on the asset being put into the trust. The beneficiary then lived in the house as their primary residence for a period of time, which meant that when the property was sold, CGT did not need to be paid as Private Resident Relief was applied.

Being able to hold over CGT is not commonly seen as the main motivation for taking out a trust but it is seen as a benefit to setting up a trust, rather than just directly transferring assets to beneficiaries. However, there was some evidence from the settlor interviews that this could in rare instances be a motivation for setting up a trust, as without being able to hold over the CGT they would have been forced to sell the assets.

Case study – Capital Gains Tax as motivation for setting up trust

64-year-old settlor bought a house for his daughter and son-in law in London, as she was pregnant and they could not afford to buy themselves. A number of years later, when the family started to expand further and they needed to build an extension, the property was put into a trust. A trust was used because the settlor could not afford to pay the CGT on the property, if he was to directly transfer the house into his daughter's name. Therefore, the only way he could pass the property to his daughter (so she could take out a mortgage for the extension) was a trust, as they would be able to access Hold-Over Relief and therefore the CGT would not need to be paid until the asset was sold.

Income Tax

Settlors saw reducing their IT liability as a benefit to having a trust but it was not seen as a motivation or driver for them to set up a trust. The reduction in IT tax liability alone would not be a motivation to take out a trust because settlors did not believe it would have as great an impact on their tax liability as reducing IHT and/or CGT.

Reduced IT liability was seen as an additional benefit to having a trust rather than a driver for taking out a trust because settlors were commonly focused on achieving another objective, such as a personal goal, of passing assets to a family member and/or avoiding IHT on their death. For example, they may be passing on income through the trust to basic rate tax payers, but this was seen as a benefit of having a trust, not the reason that they set the trust up.

Case study – Income Tax not a driver to setting up a trust

Couple 71 and 70 years of age. Built a second home on a plot of land a number of years ago which one of their parents lived in for a time. When the parent died, they wanted to make sure that the money and property would go to their grandchildren. However, they were concerned about how it would be spent if it was passed to them too young. Tax focus was on avoiding IHT on their death but they have taken advantage of IT by putting the rent into an account for their grandchildren, who are basic rate tax payers.

Offshore trusts

Agents who dealt with offshore trusts discussed how non-domiciled individuals were currently accessing offshore trusts to avoid paying IHT and CGT. These non-domiciled individuals were not necessarily going to settle in the UK, or stay for a long period of time and therefore it made logical sense for them to hold their assets offshore. The UK government had put this allowance in place for non-domiciled individuals and therefore they saw it as completely legitimate to take advantage of this legislation. The non-domiciled settlor that we spoke with, reiterated this sentiment.

"So if you have flexibility and you want to preserve flexibility you look for the flexible options and you see what you can do and in what environment. We had the choice of establishing this fund offshore."
Settlor, Offshore Trust

Furthermore, agents noted that in some countries IHT and CGT did not exist and therefore non-domiciled settlors questioned why they should pay this tax, if they are not necessarily going to stay in the UK for an extended period of time. There was also a suggestion from some agents that if UK tax rates were lower individuals may be more inclined to bring their assets onshore.

6 Impact of costs and tax on the way settlors managed their trusts

Introduction

This chapter will initially discuss the way that costs impacted on how settlors decided to manage their trusts. These initial sections will explore the effect that the type of assets held and whether trusts being managed by non-professional or professional trustees had on the way that settlors decide to manage their trusts. We will then move on to discuss the impact of tax on the way settlors managed their trusts. This section will draw on data from the settlor and agent interviews.

Impact of costs on management

There were two elements in particular that influenced agent costs and therefore impacted on how the settlor decided to manage their trust;

- The type and value of assets in trust;
- How much control the settlor wanted to maintain over the assets.

Type and value of assets in trust

The type and number of assets in trust had a great influence over the management of the trust as certain assets needed more active management than others. Equally, if there were multiple assets within the trust, it was more likely that a professional trustee would be needed to manage said assets for the settlor.

For example, if a settlor had investments and bonds in the trust then they were more likely to have at least one professional trustee to manage those assets and the potential income that would be generated from the assets. Settlors would need a professional trustee to manage the investments for them and the additional paperwork and tax returns that were generated from these types of assets. Conversely, if a settlor just had one asset in trust, such as real estate or heirlooms, they were less likely to need a professional trustee to actively manage the trust because the real estate/heirlooms would just sit in the trust until the time that the settlor decided the beneficiaries could receive the assets.

The value of the assets in trust were also important. If the assets were of a lower value, agents commonly estimated between £100,000-150,000, and needed active management, such as investments or bonds, agents would recommend that the settlor did not put those assets in trust. The key reason being that the agent fees would soon outweigh the benefits of having the trust. A few agents even suggested that putting in any assets worth under a million pounds in a UK based trust would not be worthwhile for the settlor.

Maintaining control over assets

Settlors were willing to pay higher costs to retain more control over the assets in trust. As previously noted, settlors were very keen to keep control over these assets which was one of the key reasons as to why they had decided to take out a trust. This need to maintain control was also relevant to how they decided to manage the trust once it was active. Settlors were typically aware that they did not fully understand how a trust worked in practice and therefore they would need to pay a professional to manage the trust for them, so they could achieve the desired outcome. They would relinquish control of the day-to-day management of the trust to a professional trustee but ensure that they were also a trustee, so they could still be involved in the decision making process, especially when it came to moving parts of assets or entire assets out to the beneficiaries.

Settlors that were happy to pay this additional cost and maintain more control over the assets tended not to have low value assets within the trust, because they would be unable to afford the agent fees for actively managing the trust. Additionally, this need for control and flexibility, meant that they tended to have discretionary trusts.

Impact of tax on trust management

The entry and ongoing charges had a variety of impacts on how settlors decided to manage their trusts. The taxation levels influenced the initial amount the settlor decided to put into the trust and how and when they decided to move elements of the assets out of the trust or close the trust entirely.

Entry charge

Settlors would typically put an amount just under the IHT nil rate band into the trust, because either their assets fell under the nil rate band or they were actively avoiding the 20% entry charge. Agents also stated that they recommended that settlors put an amount under the nil rate band into trust because this would be the most tax efficient approach. Settlors only tended to put an amount over the nil rate band into trust if they were particularly concerned about the beneficiaries and what would happen to the assets if they were not put into trust.

"Entry charge means that virtually no one goes over the £325,000. I think in all the years I've done it I've only known one who's chosen to go over it and pay the upfront 20% charge. She was so desperate to make sure there were funds set aside for this child who had a learning disability but wasn't sufficient to be a disabled person."
Agent, UK based trusts

Ongoing tax charges

Awareness of the 10-year anniversary charge was mixed amongst settlors. Typically, they were either aware of the periodic charge but not the finer detail of how much they would need to pay or they were completely unaware that there would be ongoing/further tax charges. This lack of awareness meant that it was difficult to establish with settlors how acceptable they felt the 10-year anniversary charge was, as even the ones who were aware of it, did not seem to recall the percentage that they would have to pay.

As discussed previously, settlors commonly had quite a limited understanding of their trust and how trusts worked in general. However, there was evidence to suggest that those who were aware of the charges had a greater level of knowledge and understanding of their trust, then those who were completely unaware of the charges.

Settlors' limited understanding of the 10-year anniversary charge was in line with the agent perspective, as they did not feel that settlors generally understood the charge and why they would be charged every 10 years. Agents made it clear that they explained that these charges would be no higher than 6% every 10 years and the periodic charges had been put in place to replace the IHT that would be payable on their death, if the settlor had not taken out a trust. However, they did admit that the 10-year anniversary charge was quite complicated and therefore it was not entirely surprising that settlors did not understand this charge. Equally, it would be their duty to raise the anniversary charge once the trust was around 9 years old, so they could review the current situation and how the settlor would like to proceed.

"Well, I think he told us that that would happen but I, to tell you the truth I don't really remember how much detail he went into. I've got files and files and files but it's, I find it very difficult to work through."
Settlor, UK based discretionary trust

Agents raised some concerns over the calculation of the 10-year anniversary charge. They said that this complex calculation is easy to get wrong, especially if it is managed by someone with little experience. The time required for agents to complete the calculation also meant that it could be costly to the settlor or trust. Agents said that in some cases, they recommend that settlors close their trust and pass assets to beneficiaries, just before the charge because it would not be financially worthwhile for the settlor to pay for the agent to work out the tax owed. Agents suggested that the amount the settlor would have to pay them to work out the charge was commonly double or triple the amount that the settlor would owe in tax. Of course, if the trust was not at the right point to be closed, for example beneficiaries were still minors or not ready to receive the assets, then agents would not recommend for the settlor to close the trust at that time, but it was highly unlikely that an agent would recommend for a settlor to keep a trust through more than one anniversary charge.

"It's too complex. They've made it so complex since the 2006 legislation. I've had a case just recently where even they were flummoxed by what to do. Even HMRC couldn't give a definitive answer, because they've just made it so complex."
Agent, UK based trusts

Conclusions and implications

Settlors tended to have a goal in mind when setting up a trust. Settlors used trusts to protect assets, retain control over them and have flexibility in how they are used. Tax planning is viewed as one way of protecting these assets and for some settlors this was an important reason for setting up a trust. For other settlors, there seemed to be no perceived tax benefits in having a trust and they were motivated by the control, flexibility and other forms of asset protection. Settlors commonly had very limited knowledge of trusts and were advised by agents that a trust would enable them to meet these goals.

Agents dealing with UK and Offshore trusts tended to focus on the personal goals of settlors. They said that settlors were concerned with ensuring that their assets go to the intended beneficiaries and that tax was a secondary factor in their decision making. Further, agents stated that since changes to trust tax legislation in 2006, there were no tax benefits to UK trusts and that, in many cases, there were more tax friendly alternatives to taking out a trust but settlors use them because of the personal benefits they provide. It should be noted that some agents were less open and keen to focus on certain elements of the conversation, which had an impacted on the data collected. These personal benefits were important to settlors. Ensuring that their partner, children and grandchildren were provided for, was generally the ultimate goal but tax planning did seem to play a role in achieving this. Settlors wanted to protect their assets and this included protecting them from taxes such as IHT and CGT, so that their beneficiaries could receive as much as possible. This was viewed as responsible and, in some cases, essential financial planning.

The main way in which settlors reported reducing their tax liability was by making use of the IHT nil rate band, which could reduce or eliminate IHT from their estate. Settlors viewed this as an attractive approach to reducing their IHT liability although agents explained that settlors could have achieved the exact same tax benefit by simply gifting the asset and would not have needed to pay costs.

The alternatives considered by agents and settlors were important in understanding their different perspectives on the tax benefits of trusts. The agents' perspective was that in comparison to gifting assets, a trust is a complex and expensive method of passing on assets. They stated that settlors used trusts rather than gifting assets because of the control, flexibility and protection trusts provided. However, settlors did not consider gifting as an alternative to a trust. Settlors said that if they did not set up their trust they would have been likely to leave the assets in their estate and pass on through a will. From this perspective, the tax benefits were clearer as they allowed the settlor to access the same tax benefits as gifting the asset while retaining control and flexibility over them.

Similarly, when it came to use of offshore trusts, agents focused on the non-tax benefits they provided and the legal right of settlors to keep assets in a lower tax regime. Discussion of UK residents' use of offshore trusts was limited although some agents did say that while this used to be commonplace, HMRC legislation and International Disclosure Agreements have mostly put an end to their use. Agents dealing with offshore trusts suggested that settlors with assets offshore may be encouraged to bring them onshore if the UK tax regime was less punitive. Rates for IHT and CGT were particular areas of focus. Their view was that settlors were not averse to paying tax but they were averse to paying the level required in the UK.

Appendices

Appendix A – Quota details

The tables below outline the quota details for the agent and settlor interviews

40 x in-depth interviews with agents			
Size of agent	Nano/Micro	5	
	Small	9	
	Medium	15	
	Large	11	
Types of trusts managed	IIP or discretionary only	3	
	Both IIP and discretionary	37	
Location of trusts	UK or offshore only	28	
		UK only 27	Offshore only 1
	UK and Offshore	12	
Number of trusts currently managed	1 - 5	7	
	6 +	33	

20 x in-depth interviews with settlors		
Primary criteria		
Trust type	Discretionary	17
	Interest in Possession (IIP)	2
	Disabled persons trust	1
Location of trust	UK based	18
	Offshore	2
Tax liability	Tax paying trust	14
	Non-tax paying trust	6
Secondary criteria - all mix and monitor		
Type of assets put into trust	Cash	8
	Investments	4
	Shares	2
	Heir looms	1
	Real estate	10
Time since trust was set-up	0-5 years	15
	6-10 years	1
	11+ years	4
Trust income	Low (£1,000 or less)	1
	Medium (£1,001 - £11k)	5
	High (11k - £43k)	1
	Higher (£43,001 +)	1
Gender	Male	13
	Female	7
Background of settlor	Financial or Tax Professional	5
	Lay	15

Appendix B – Discussion Guides

Exploring The Use of Trusts

Agents Discussion Guide

Research objectives:

The primary aim of the project is to explore the use of trusts with settlors and agents to better understand what motivates settlors to use trusts. The research will enable HMRC to better estimate the impacts of potential policy reforms and improve compliance. The main objectives are therefore:

- Why are trusts set up?
- What are the key considerations that drive the decision to set up a trust?
- What types of trusts are used, and why?
- What motivates individuals to set up trusts offshore? Any differences with UK-based?
- Why are Interest in Possession (IIP) and discretionary trusts chosen?
- What are the relationships between the settlor, beneficiaries and trustees, and how does this affect decisions?
- Explore the costs and processes associated with setting up and running trusts. What are the tax benefits of creating a trust - and when are these greater than the costs involved?
- What is the role of the IHT entry charge and 10-year anniversary charge in driving behaviours?
- What are the motivations for moving assets into and out of trusts?
- What impact does the current tax regime have on decisions? Do settlors react differently to changes in CGT, IHT, and IT rates and threshold changes for individuals? Under what circumstances are trusts set up for CGT rather than IHT or income tax purposes? Is the motivation in relation to a mixture of all three taxes or is one tax more significant than the others when setting up a trust?

1. Introduction	5 mins
Thank participant for taking part. Introduce self, Ipsos MORI – independent research organisation; gather all opinions; all opinions valid. Interview should take around 60 minutes. Introduce research and topic – HM Revenue and Customs (HMRC) have commissioned Ipsos MORI to speak with settlors and agents about the use of trusts. The research will assist HMRC in estimating the impact of potential policy reforms. We will be speaking to you about your experience of trusts in general and not about individual customers. We are also speaking to settlors during this research, so it is possible that we may contact and speak with some of your clients. If this happens, we will not discuss your views with them and data will not be linked between your interviews. Confidentiality - reassure all responses anonymous and that information about individuals will not be passed on to anyone, including back to HMRC. Role of Ipsos MORI – independent research organisation (i.e. independent of GOVERNMENT), we adhere to MRS code of conduct, we gather a range of opinions from a range of people: all opinions valid Ask for permission to digitally record – transcribe for quotes, no detailed attribution. Can I just check before we begin that you currently advise on trusts? Any question before we begin?	Orientates interviewee, prepares them to take part in the interview Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and Data Protection Act guidelines)
2. Background and context	5 mins
To start off, I'm going to ask a few questions about the organisation and your role. Can you start by telling me a bit about your organisation? o What do you do? o How many people does the organisation employ? And could you briefly talk me through your role in the business? o How long have you been doing this? o Probe for how much of their time is taken up by trusts: is this a core part of their role or are they juggling this with a lot of other responsibilities? How many trusts have you been involved in setting up in the last year? o Is this typical? Has this changed over time? o PROBE on UK based or Offshore	Gives contextual background information about the interviewee and the organisation.

3. Customer Understanding and Agent Advice	10 mins
Now we are going to move on and talk about the reasons for individuals setting up trusts. How much do settlors tend to know about trusts before coming to you? o What do they think the benefits or drawbacks are? o How much do they tend to rely on an agent for advice? o Who else might influence their decisions? o Do they typically have any prior financial experience? What are the key reasons for settlors to want to set up a trust? o Do these include consideration about the tax regime? o Do these motivations differ between UK/offshore trust or different types of trusts? How? In what circumstances would you typically advise a client to consider setting up a trust? Can you briefly talk me through all the types of trusts you advise on and in what circumstances you would recommend them? o Bare trusts o Interest in Possession (IIP) trusts o Discretionary trusts o Accumulation trusts o Mixed trusts o Settlor-interested trusts o Non-resident/ Offshore Trusts o Will Trusts What are the top three types of trust that you typically suggest your clients use? In your experience, are Interest in Possession (IIP) and Discretionary trusts most commonly used? Why do you think that's the case?	*Note for interviewer – this can be discussed in more details in section 5*
4. Questions about specific types of trust. Ongoing trust behaviour and influence of tax regime on decisions around trusts	10 mins
<u>*Ask the following subset of questions for around Interest in Possession and Discretionary trusts – if other types of trusts are indicated as most commonly used also cover them*</u> What types of assets are typically placed into [this type of trust]? In your opinion, what are the key things that settlors consider when deciding to set up [this type of trust]? o PROBE around financial reasons o PROBE around personal or emotional reasons o Probe around offshore trusts specifically o Ask for examples where appropriate	

Thinking about the reasons we have just discussed, which do you think is typically the main reason for setting up [this type of trust]? o Does it differ by the value of the trust? o Do the reasons differ if the trust is UK based or offshore? o Are there any other customer specific factors that could impact on this? What are the tax benefits of creating [this type of trust]? o How do the tax benefits compare to the costs for setting up and managing a trust? How does this differ by investment level? o Do the costs impact on the decision to set up trusts? Is that more relevant for certain types of trusts/circumstances? o When are the benefits greater? o When are the costs greater?	
5. Offshore Trusts	5 mins
<u>Questions only for agents advising on Offshore Trusts</u> What reasons might settlors have for choosing to set up a trust offshore, rather than a UK based trust? o PROBE what settlors would think the benefits and drawbacks are o PROBE around financial reasons o Are certain types of customer more likely to use them? o In what circumstances are they used? o How do the tax benefits compare to the costs for setting up and managing a trust? o What role does the tax regime play in this decision?	
6. Process and ongoing management of trusts	5 mins
Now we are going to move on and talk about processes and the ongoing management of trusts in more detail. Can you briefly talk me through the costs and processes of setting-up and running a trust? o How does this differ by trust type and scale? o PROBE around Interest in Possession (IIP) and Discretionary How do settlors move assets in and out of trusts? o And for what reasons might they do this? o Is this a common occurrence? o PROBE around what settlors would think the benefits or drawbacks are What types of assets are typically placed into trust? What are the tax benefits for different assets put in a trust?	

7. Tax Benefits and Regime	15 mins
Now, let's move on and discuss the specific tax elements and whether these influence the decision to set up a trust. Can you briefly explain under what circumstances trusts are set up to reduce Capital Gains Tax (CGT), Inheritance Tax (IHT) or Income Tax (IT) liability? o which of these, if any is most influential for settlors? And least? o How does this differ by trust type? o Aside from the three taxes named above are there instances where other taxes may impact on the decision to set up a trust? Can you tell me in what circumstances reliefs on IHT, Entrepreneurs Relief (ER) or other reliefs can be claimed? o Do they have personal experience of this? o How, if at all, would this impact on the advice you would give to a settlor? o And how might this influence a settlor's decision? o Would this be an important factor in their decision? How? What impacts do you think the Inheritance Tax (IHT) entry charge, ongoing charges and exit charge has on settlor's decisions to use trusts? o High vs low impact – why do you say that? What impact would you say, if any, the 10-year anniversary charge has on how settlors manage their trusts? o PROBE on positive or negative impact and why do they say this? What, if any, impact do changes to the tax regime have on settlor's decisions to move money in and out of trusts? And what, if any, impact does it have on their decision to close a trust? How, if at all have previous changes in the tax system affected how settlors think about trusts? o Has anything made them more attractive? o Has anything made them less attractive? o Probe around UK and Offshore Do you think that HMRC's more recent active interest in trusts has had any impact on settlor behaviour? o What, if any impact would you say this has had on settlor's decisions to take out trusts? Positive vs negative? PROBE for examples where possible	
8. Summing up	5 mins
We are coming to the end of the interview, but I just have a few final questions before we finish. In your experience have the types of trust being used by settlors changed over time? Why do you think this is the case?	Bringing the conversation to a close, and allowing participant to mention

o PROBE around if they can note links to specific tax changes or events Thinking back to our discussion what would you say are the key reasons for settlors taking out trusts? Are there any other issues you feel should be raised or any final comments you would like to add before we finish? Thank and reiterate confidentiality. Check if they would like a charity donation or personal cheque from Ipsos MORI, as thank you for their time. Explain next steps for the research and close.	anything additional if they wish.

Exploring The Use of Trusts

Settlor Discussion Guide

Research objectives:

The primary aim of the project is to explore the use of trusts with settlors and agents to better understand what motivates settlors to use trusts. The research will enable HMRC to better estimate the impacts of potential policy reforms and improve compliance. The main objectives are therefore:

- Why are trusts set up?
- What are the key considerations that drive the decision to set up a trust?
- What types of trusts are used, and why?
- What motivates individuals to set up trusts offshore? Any differences with UK-based?
- Why are Interest in Possession (IIP) and discretionary trusts chosen?
- What are the relationships between the settlor, beneficiaries and trustees, and how does this affect decisions?
- Explore the costs and processes associated with setting up and running trusts. What are the tax benefits of creating a trust - and when are these greater than the costs involved?
- What is the role of the IHT entry charge and 10-year anniversary charge in driving behaviours?
- What are the motivations for moving assets into and out of trusts?
- What impact does the current tax regime have on decisions? Do settlors react differently to changes in CGT, IHT, and IT rates and threshold changes for individuals? Under what circumstances are trusts set up for CGT rather than IHT or income tax purposes? Is the motivation in relation to a mixture of all three taxes or is one tax more significant than the others when setting up a trust?

Note to moderator: Key questions that must be covered in each interview are highlighted.

9. Introduction	5 mins
Thank participant for taking part. Introduce self, Ipsos MORI – independent research organisation; gather all opinions; all opinions valid. Interviews should take around 60 minutes. Introduce research and topic – HM Revenue and Customs (HMRC) have commissioned Ipsos MORI to speak with settlors and agents about the use of trusts. The research will assist HMRC in estimating the impact of potential policy reforms. We will be speaking to you about your reasons for setting up a trust and your experience of doing this. Confidentiality - reassure all responses anonymous and that information about individuals will not be passed on to anyone, including back to HMRC. Role of Ipsos MORI – independent research organisation (i.e. independent of GOVERNMENT), we adhere to MRS code of conduct, we gather a range of opinions from a range of people: all opinions valid Ask for permission to digitally record – transcribe for quotes, no detailed attribution. Just to confirm: • Do you currently have a trust? • How many do you have? Any question before we begin?	Orientates interviewee, prepares them to take part in the interview Outlines the 'rules' of the interview (including those we are required to tell them about under MRS and Data Protection Act guidelines)
10. Background and context	5 mins
To start off, I'm going to ask a few questions about your circumstances **Can you just tell me a bit about yourself?** o Where do you live? o Does anyone live in the household with you? **What do you do day-to-day?** o Work? Retired? Something else? o What do/ did you do for a living? o Any professional financial experience?	Gives contextual background information about the settlor
11. Initial reasons for setting up trust(s)	15 mins
Now we are going to move on and talk about the trust you have and what led you to setting it up. *For settlors with multiple trusts, go through each trust in turn.*	

What type of trust(s) do you have? *Note to interviewer: if settlor doesn't know the name of the type of trust, ask them to describe the trust to you.* o What assets have you put into the trust? o When did you set it up? o Is it UK based or Offshore? Can you tell me about your circumstances at the time you set up the trust? o What prompted you to do it at that time in particular? o Had anything recently changed in your life? What was the main reason for you setting up the trust? *Allow participant time to talk reason through fully in their own words and only use prompts to clarify if needed.* o Protecting assets from other people? o Ensuring that beneficiaries do not misuse the assets? o To provide flexibility in their Will? o To retain control over assets? o Protecting assets from tax? o Protecting assets from other costs (e.g. care home fees) And what other reasons did you have? Again, allow them to talk through and then clarify with prompts above if needed. What would be the ideal outcome of your trust? o What are you hoping to achieve? How do you feel individuals who set up trusts are viewed by society? • What makes you say that? Media impact? • What about HMRC, how do they view people who set up trust? • What makes you say that?	Understand reasons for each trust they have, especially UK and Offshore
12. Offshore Trusts	5 mins
<ins>*Questions only for settlors who also have an offshore trust*</ins> *I'd like to understand a little about your reasons for setting up an offshore trust* What made you decide to set up an offshore trust? o What did you see as the benefits? o What did you see as the drawbacks? o What role did tax/ financial advisers play (if any)?	

How did the costs for setting up and managing an offshore trust compare to a UK based trust? And what about the tax benefits? How do they compare?	
13. Understanding and advice sought	5 mins
Thinking back to when you set up the trust… How much did you know about trusts at that point? o What did you think they were for? o What did you think the benefits were? o What did you think the drawbacks might be? o How did you know this? Did you have previous experience of trusts? How? o Did you know anyone else who had a trust? Who? How did you know that a trust was right for you? o Did you seek information? Where? o Who did you get advice from; agent, financial adviser, friends and family? o What was their role in the decision? o Was anyone else involved in the decision to set it up?	
14. Questions about set up and management of trust	10 mins
Now we are going to move on and talk about the setting up of the trust and the management of your trust in a little more detail. What made you set up the specific type of trust you have? o What appealed to you about this type of trust? o What are the advantages? o Are there any disadvantages to this type of trust? o Did you consider any other types? Can you briefly talk me through how your trust was set up? o Who handled this? o What did you need to do? o How much did it cost? And how much management does your trust need at the moment? o Who handles this? o How did you decide who was going to manage the trust? What is your relationship to them? o What do they/you need to do? o What level of involvement do you have with the management of the trust? o What are the ongoing costs for your trust? o Are these costs annual or less frequent? o How much does it cost annually?	

How far did you consider these costs when you set the trust up? o Are the costs higher or lower than you expected? o How important a factor is cost to you? Have you made any changes to your trust since it was set up? o If yes, what did you change? Why was this? o If no, are you planning on making any changes?	This question will not be relevant for IIP – as the trust is not flexible, once set up settlor no longer has control of assets.
15. Tax Benefits and Regime	15 mins
Now, I'd like to talk to you about how your trust affects the tax you pay. At the time of setting up the trust, how, if at all, did you think the trust would affect your tax liabilities? o Reduce them? What would be reduced and when? o Inheritance Tax, Capital Gains Tax, Income Tax – A mix of all three? o Increase them? When? o Make no difference? o Why did you think this? o Are the tax liabilities as you expected them? How important was this to you when deciding to set up a trust? o The main factor? Secondary? Not important at all? Why was this? *Only ask the numbered technical questions below if you believe that the settlor has a solid grasp of the tax liabilities that are relevant to their trust(s).* 1. What impact, if any, has your trust had on the Inheritance Tax liabilities for your assets? o Reduced? How? o Made no difference? Why? 2. Are you aware of the Inheritance Tax 10-year anniversary charge? o What do you know about this? o Are you liable for this? o Have you paid it? How many times? o What do you think about it? 3. What impact, if any, has your trust had on the Income Tax liabilities for your assets? o Reduced? How? o Increased? How? o Made no difference? Why? 4. What impact, if any, has your trust had on Capital Gains Tax liabilities for your assets? o Reduced? How? o Increased? How?	

o Made no difference? Why? *DO NOT READ OUT - The following questions are for those who have reduced tax liabilities…* Would you have set up the trust if there were no tax benefits in doing so? Aside from taxes, did you have any other financial considerations when you set up the trust? o Were there any other costs you were hoping to reduce or prevent? o How important was this to you? Do you know if you have you ever claimed any tax reliefs through your trust? o Which ones? o How did you find out about this? o How important was this in considering whether to take out a trust? Since setting up your trust, have any changes to the tax system affected the amount of tax paid for your trust? o Which changes? When did this change happen? o How did you feel about this? o Has this changed the way you think about your trust? o Did it have any impact in how you manage the trusts, or your intention to take assets in or out of it?	
16. Summing up	5 mins
We are coming to the end of the interview, but I just have a few final questions before we finish. Thinking about everything we've discussed, what was the most important factor you considered when setting up your trust? How far, if at all, did tax planning play a role in this? If you didn't already have one, would you set up a trust now? Are there any other issues you feel should be raised or any final comments you would like to add before we finish? Thank and reiterate confidentiality. Check which charity they would like Ipsos MORI to make a donation to. Explain next steps for the research and close.	Bringing the conversation to a close, and allowing participant to mention anything additional if they wish.

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