



What are pilot trusts?

A pilot trust is set up during the lifetime of an individual in order to receive funds and/or property upon their death from a legacy in their Will, a pension fund, a life insurance payout or a death-in-service benefit. Also known as feeder trusts or family bypass trusts, they are normally discretionary and can be created with as little as one pound in the original trust document.

The trustees can be your professional adviser, a trust corporation or up to four trusted individuals, one of whom may be a spouse or civil partner. We recommend that there are at least two trustees as a minimum unless a trust corporation is appointed.

As the person setting up the trust, you may like to leave a statement of wishes with the trustees explaining why the trust was created and guiding their decisions as to how the beneficiaries should be treated.

A pilot trust is useful when you wish to benefit different members of the family, future generations and/or children from a previous marriage. The trust may also offer protection from creditors, divorce claims, future care costs or financial abuse by or of beneficiaries.

Unmarried couples may find pilot trusts useful. As there is no spousal exemption to utilise, they could leave their nil rate band to the trust with the residue to a cohabitee with a significant inheritance tax saving.

If death-in-service benefits, pension funds and life insurance payouts pass into pilot trusts, they will not form part of the estate of the deceased; they are readily available without the need for probate and there could be considerable tax savings. Multiple trusts may also be created (as long as they are not formed on the same day) and if each fund is limited to £325,000 (the present IHT threshold) there may be no 10 yearly or exit charges (inheritance taxes) depending upon the growth of the fund and subsequent increases to the nil rate band.

Pilot trusts are relatively easy to set up and can be established separately or at the same time as your Will is prepared for as little as £500+VAT and £250+VAT for each additional trust if required at the time.

Do I need a pilot trust?

If you answer YES to ANY of the following questions a pilot trust may be appropriate for you:

- Could your estate receive funds from a death-in-service benefit, pension fund or life insurance payout when you die and do you wish to avoid unnecessary inheritance tax?
- Do you wish to protect your assets for your children from a previous marriage?
- Have you vulnerable beneficiaries you wish to protect from creditors, financial abuse, divorce claims or future care fees?
- Do you wish to protect some or all of your estate for future generations (i.e. grandchildren)?
- If you are not married, do you wish to reduce your partner's future inheritance tax liability?
- A probated Will is a public document. Do you wish to avoid disclosure of beneficiaries by leaving a bequest to a pilot trust?
- Do you wish to avoid additional fees for the preparation of future Wills that would otherwise incorporate Will trusts?
- Would you like to relieve your beneficiaries of their future inheritance tax liability? The funds or property held in a pilot trust do not belong to any one beneficiary so they are not subject to inheritance tax when one of the beneficiaries dies.

What is the effect?

No pilot trust	
James dies and leaves his estate to his wife, Sarah	£400,000
Lump sum death benefit paid to Sarah	£600,000
Sarah's own estate	£300,000
Total estate	£1,300,000
Less nil rate band (x2 to include James's unused allowance)	£650,000
Net taxable estate	£650,000
Inheritance tax payable at 40%	£260,000

With pilot trust	
James dies and leaves his estate to his wife, Sarah	£400,000
Sarah's own estate	£300,000
Total estate	£700,000
(Lump sum death benefits of £600,000 paid to pilot trust within two years. Trust makes £300,000 loan to Sarah)	£300,000
Gross estate	£1,000,000
Less loan due back to trust	£300,000
Less nil rate band (x2 to include James's unused allowance)	£650,000
Net taxable estate	£50,000
Inheritance tax payable at 40%	£20,000

NB: The pilot trust will be subject to its own IHT regime: a charge every 10 years of a maximum 6% and an exit charge when assets leave the trust, but it will be substantially less than the difference between £260,000 and £20,000 even if it is kept intact. If the overall value of the trust remains below the nil rate band in force, currently £325,000, the charge will be nil.

PLEASE CALL US ON 0845 55 55 321