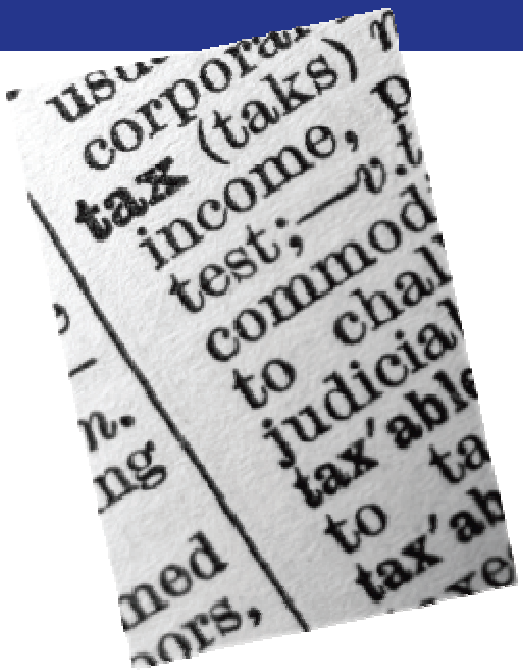
# Can trusts eliminate the tax I pay?




- Assets assigned to Trust can potentially reduce the tax payable.
- Trusts are also subject to tax, but appropriate management by the Trustees can reduce any amount due substantially.
- Trusts can significantly reduce the impact of tax on future generations.

## In Detail

### Can Trusts Reduce Or Eliminate The Tax I Pay?

Trusts have been instrumental in mitigating tax since medieval times. Trusts were initially created for the Nobility and wealthy landowners to avoid paying taxes to the Crown.

The introduction of Trusts led to a distinct loss of tax revenue and it did not take long for the first anti-avoidance statute to be introduced; by Henry VIII in 1535.

Since then, there have been many changes to Trusts and their uses and equally to the Inland Revenue rules which affect them.

Nowadays, you don't have to be a Nobleman, or a wealthy landowner to want to take advantage of the many tax strategies Trusts can provide.

Many people now look to using Trusts as a means of mitigating tax which would otherwise be payable.

There are **four types of tax** which could affect you and your estate:

- **Corporation Tax**

Corporation tax is paid by limited companies on their profits. Corporation tax is not payable by the self-employed but does apply to the following organisations, even if they are not limited companies:

- Members' clubs, societies and associations.
- Trade associations.
- Housing associations.
- Groups of individuals carrying on a business but not as a partnership, eg co-operatives.

There are two rates. The two rates of corporation tax - the small companies' and main rate - relate to a level of profit. When a company's profit level changes from the small companies' rate to the main rate, marginal relief is available to ease the transition.

- **Capital Gains Tax**

CGT is a tax on capital 'gains'. If when you sell or give away an asset it has increased in value, you may be taxable on the 'gain' (profit). This doesn't apply when you sell personal belongings worth £6,000 or less or in most cases, your main home.

**You may have to pay CGT if for example, you:**

- Sell, give away, exchange or otherwise dispose of (cease to own) an asset or part of an asset.
- Receive money from an asset - for example compensation for a damaged asset.

**You don't have to pay CGT on:**

- Your car.
- Your main home - provided certain conditions are met.
- ISAs or PEPs
- UK Government gilts (bonds)
- Personal belongings worth £6,000 or less when you sell them.
- Betting, lottery or pools winnings.
- Money which forms part of your income for income tax purposes.

### These are some points to bear in mind:

- If you are married or in a civil partnership and living together you can transfer assets to your husband, wife or civil partner without having to pay CGT.
- You can't give assets to your children or others or sell them cheaply without having to consider CGT.
- If you make a loss you may be able to make a claim for that loss and deduct it from other gains, but only if the asset normally attracts CGT - for example you cannot set a loss on selling your car against gains from disposing of other assets.
- If someone dies and leaves their belongings to their beneficiaries, there is no CGT to pay at that time - however if an asset is later disposed of by a beneficiary, any CGT they may have to pay will be based on the difference between the market value at the time of death and the value at the time of disposal.

- **Inheritance Tax**

This is a tax on the value of a person's estate on death and on certain gifts made by an individual during their lifetime. Broadly speaking your estate is everything you own at the time of your death, less what you owe. It's also sometimes payable on assets you may have given away during your lifetime. Assets include things like property, possessions, money and investments.

The inheritance tax threshold is the amount above which inheritance tax becomes payable. If the estate, including any assets held in trust and gifts made within seven years of death, is less than the threshold, no inheritance tax will be due on it.

It only applies if the taxable value of your estate is above the current threshold and is only payable on the excess above this nil rate band.

The rate at which inheritance tax is charged is 40%.

- **Income Tax**

Income Tax is a tax on income. Not all income is taxable - and you're only taxed on 'taxable income' above a certain level. Even then, there are other reliefs and allowances that can reduce your Income Tax bill - and in some cases mean you have no tax to pay.

### Taxable income includes:

- Earnings from employment
- Earnings from self-employment
- Most pensions income (State, company and personal pensions)
- Interest on most savings
- Income from shares (dividends)
- Rental income
- Income paid to you from a trust

### Non-taxable income

There are certain sorts of income that you never pay tax on. These include certain benefits, special pensions and income from tax exempt accounts. These are ignored altogether when working out how much Income Tax you may need to pay.

So whether you own your own business and your concern is Corporation Tax, own property or hold other forms of assets which would fall prey to Capital Gains Tax, or believe Inheritance Tax will become an issue for your intended beneficiaries; Rafter Wills and Estate Planning Ltd can provide you with the correct type of tax planning to ensure as much tax as possible is saved.

We are experts in providing advice on all aspects of tax planning and with the use of Trusts, will provide these ultimate tax savings.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