



Private Client Law Bulletin

INCOME TAX AND TRUSTS

As the income tax rate for discretionary trusts is increasing to 50% on 6 April 2010 (with the dividend rate increasing to 42.5%), it has never been more important to plan ahead in order to reduce the potential tax liability.

In order to avoid the higher trust rate, trustees could and should consider appointing a revocable life interest trust to the beneficiaries of the trust. The result of this would be that the trustees would suffer basic rate income tax on the income received and the beneficiaries would pay higher rate income tax, if appropriate, on the income paid out to them (net of expenses properly chargeable to income).

Because the life interest trust would still be within the relevant property regime, there would be no inheritance tax consequences on either creation or revocation.

Similarly, there would be no capital gains tax consequences as the conversion to a life interest trust (and back to a discretionary trust on revocation) would not amount to the creation of a new settlement.

If you require any specific advice in connection with the material contained in this bulletin, or on any other Private Client issues, please contact: Duncan Bailey in Liverpool on 0151 600 3451, Richard Bate in Manchester on 0161 836 8840 or Stephen Marriott in Preston on 01772 229 816.

If you no longer wish to receive the bulletin please let us know by return e-mail to helen.calvert@brabnerscs.com

This bulletin is for general guidance purposes only and should not be used for any other purpose.

Brabners Chaffe Street is a Limited Liability Partnership



LIVERPOOL

Horton House, Exchange Flags, Liverpool L2 3YL
0151 600 3000

MANCHESTER

55 King Street, Manchester M2 4LQ
0161 836 8800

PRESTON

7-8 Chapel Street, Preston PR1 8AN
01772 823921