

## Pilot trusts

### What is a Pilot Trust?

Pilot trusts are trusts set up during your lifetime and which receive property on your death via a specific legacy in your Will. They can also be used to receive death in service benefits, or a sum assured from a life insurance policy.

The pilot trust would normally be discretionary in format and are created with a trust fund as little as £10. The trustees could be you and your spouse or partner or whomever is suitable to act as a trustee in the circumstances.

Where the pilot trust is to receive assets from your Will, the Will would have to be written with a specific legacy which would 'feed' assets in to the pilot trust. Where it is used to receive death in service benefits or a life insurance pay out, we would need to notify your company, or the life insurance provider to tell them to 'bypass' your spouse or partner and instead pay the sum to the trustees on your death.

### When to use a Pilot Trust?

If you wish to create trusts to benefit different sections of your family. For example, you may wish to have a discretionary trust of your residue (to benefit your children and grandchildren) and would also like a smaller amount to be held for the benefit of a specific niece who has capacity issues. It would be wise to create a pilot trust for the benefit of your niece which could also benefit any family she may have. The pilot trust could also have different trustees to your executors if that was suitable (for example the niece's parents).

If you have a substantial estate you may wish to consider creating multiple pilot trusts simply to increase the availability of nil rate bands across the trusts. This would have to be offset by the increased administrative workload and compliance requirements that multiple trusts would involve.

Consider the grandparent leaving £600,000 on trust for her three grandchildren at 30. Following the Finance Act 2006, the trust shall be subject to ten-yearly IHT charges and a final IHT exit charge. If the grandparent had created three pilot trusts (each set up on separate days) and left the trustees of each £200,000 then each trust would have its own nil rate band going forward and significantly reduce the overall IHT exposure. The £200,000 is well below the prevailing nil rate band.

When looking at death in service benefits or life insurances, using pilot trusts to 'bypass' your surviving spouse or partner works to lower the value of your joint estate without negatively impacting on the life of your surviving spouse or partner. Talk to your Lifetime Legal Estate Planning Consultant to find out more about lowering your IHT exposure using pilot trusts.

### How to set up a Pilot Trust?

Pilot Trusts can be set up easily and quickly and it can be done at the same time as you draft your Will. HMRC will need to be notified of the trust's existence but whilst the property in the settlement is comprised of cash below £1000 and all the trustees are UK resident, no further Inheritance Tax returns will need to be submitted. The pilot trust documents can therefore be stored with your Will until such time as it is needed.