

CHANGES TO WILLS AND TRUSTS FOLLOWING THE FINANCE ACT 2006

Radical changes were introduced in The Finance Act 2006 which affect all Wills where deaths occur after 22nd March 2006, some Trusts created in a Will or during lifetime before 22nd March 2006 and all Trusts created thereafter (provided the value of the assets held in trust exceed the nil-rate band). Unless Trusts fall within one of the special exceptions they will now have the same tax treatment as Discretionary Trusts. This means that they may be subject to an additional charge to Inheritance Tax.

The most far reaching of the new regulations are those in relation to gifts to a child. If you have left a share in your estate to your child and have stipulated that they can only inherit money upon attaining a certain age above 18, for example 21 or 25, this gift will be affected by the new regime should you die prior to the child attaining that age. When the child attains the relevant age an additional charge will be made to Inheritance Tax of 4.2% on everything over the nil-rate band at that date (currently £285,000 rising to £300,000 in April 2007).

All gifts of this nature made to a child at a specified age by someone other than a parent above the nil-rate band will be subject to a charge to inheritance tax every 10 years and when payments are made out of the Trust or when it is wound up (exit charges) at a rate of no more than 6%.

NEW LIFETIME TRUSTS

All Trusts now created during lifetime will be subject to a charge of up to 20% when the Trust is set up (provided it is over the nil-rate band) and 10 yearly and exit charges of up to 6% unless it falls within one of the very few exceptions.

Previously many Trusts were tax free to set up provided the person who created it survived 7 years.

EXISTING TRUSTS

The government have given Trustees of existing Trusts up until April 2008 before the new regulations take effect. It will be possible to make changes to Trusts before that time to enable them to avoid the new taxation scheme.

If you would like some advice concerning the new arrangements or would like to change the terms of your Will to reduce your liability to inheritance tax then please contact us on 01923 228311 for further details or see our website www.sedgwickkelly.co.uk where you can obtain more information on inheritance tax planning.