

Chancellor Declares War on Trusts

The Chancellor has declared war on the use of tax advantaged accumulation and maintenance (A&M) trusts by making them subject to an immediate 'entry' tax charge of 20 per cent on lifetime transfers that exceed the Inheritance Tax threshold. By deeming them to be 'relevant property' trusts, the 6 per cent 'periodic' charge and the 'exit' charge when trust assets vest will also apply, except where specific conditions are met. The main exceptions will be trusts arising on death where the beneficiary receives the assets at age eighteen or trusts which are created for the benefit of a disabled person.

Existing A&M trusts which provide that the assets in trust will go to a beneficiary absolutely at 18 – or where the terms on which they are held are modified before 6 April 2008 to provide this – will continue to have the current exemptions. Where they do not, the trust assets will become 'relevant property' from 6 April 2008 and the periodic and exit charges will apply.