

What is a Life Interest Trust?



A Life Interest Trust can provide extra security for your loved ones after you pass away. Here, we explain how it works.

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Also known as an 'Interest in Possession Trust', a Life Interest Trust is a Trust that is included in your Will to provide future security for loved ones after you pass away.

A Life Interest Trust gives your chosen beneficiary the right to 'enjoy' an asset (normally a property) for their lifetime without being the actual owner.

This beneficiary (Life Tenant), i.e. your spouse or child(ren), can benefit from living in the house, but when they pass away, it is transferred to someone of your choosing (as written in your Will), rather than in accordance with your beneficiary's wishes.

What are the advantages of a Life Interest Trust?

Capital and income worth

The assets included in a Life Interest Trust are split into their capital and income worth.

This means that if you leave a property as an asset in your Life Interest Trust, the capital is the property and its value, and the income worth is what you would earn from renting it out.

One of the obvious advantages of this is that your chosen beneficiary (with property assets, they are referred to as a 'life tenant') will get income this way.

The benefit for you is that once the Life Interest Trust comes to an end, i.e. when the beneficiary passes away, the capital of the property is passed to a person of your choosing ('ultimate beneficiaries', as specified in your Will), not theirs.

Keeping your assets in a safe pair of hands

By leaving your asset/s in a Life Interest Trust, you can rest assured that it will be in a safe pair of hands, even after your chosen beneficiary dies.

A Life Interest Trust is often included in the Will/s of couples who are married or in a civil partnership, and want to protect their assets after they have passed away.

This type of Trust prevents your asset/s from being passed on to your surviving spouse's new partner, for example. You can instead specify that the asset is passed to your child once they die, for instance. This is one of the most popular reasons for writing a Life Interest Trust into a Will.

Care home fees

A Life Interest Trust also protects the value of the asset. This is particularly important for property; if your spouse needs to go into a care home, when their financial situation is assessed, the value of the property will not be taken into account.

This means that the property cannot be sold and used to pay for their care home fees.

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What are the disadvantages of a Life Interest Trust?

Although a Life Interest Trust can offer many benefits, there are a couple of disadvantages that you need to consider:

- + A Trustee (the person who manages the Trust) cannot access the capital of the assets to support a beneficiary to pay care home costs.
- + Trustees might feel financially vulnerable because they have no control over the assets.

Who administers a Life Interest Trust?

When you write the Trust into your Will, you must appoint Trustees. They will be responsible for administering the trust upon your death.

Who should I choose as a Trustee?

With Life Interest Trusts and Wills in general, as the name suggests, it is important to choose someone you trust.

The Trustee is responsible for ensuring the beneficiaries get the capital value and income from your Trust. The most popular choice is the surviving spouse/partner, however, if you wish to have someone independent or impartial, you can appoint a professional Trustee such as a Solicitor.

Is a Life Interest Trust liable for Inheritance Tax?

If the Life Interest Trust goes to your surviving spouse/partner, the spousal exemption will apply. This means that Inheritance Tax is not payable.

However, if the beneficiary dies, their own estate will include the value of any asset/s left to them in the Life Interest Trust. This comes as a surprise to many people as, although they were able to 'enjoy' the asset, they were not the owner, as such.

Having said that, Inheritance Tax is paid by the Trustees, not from the estate of the Life Tenant (beneficiary).

How can I set up a Life Interest Trust?

Your first port of call should be to contact an experienced solicitor who can advise you on whether a Life Interest Trust is right for you and write it into your Will.

Further information

For advice and guidance on a Life Interest Trust, writing or updating your Will, call **0117 325 2929** or visit **barcankirby.co.uk**.

BEDMINSTER 25 North St, Bristol BS3 1EN
BISHOPSTON 60 Gloucester Rd, Bristol BS7 8BH
BRISTOL CITY CENTRE Prince House, Bristol BS1 4PS

KINGSWOOD 111/117 Regent St, Bristol BS15 8LJ
THORNBURY 36 High St, Thornbury BS35 2AJ

Barcan+Kirby

📞 0117 325 2929 ✉ hello@barcankirby.co.uk 🌐 barcankirby.co.uk 📱 @barcankirby

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