



Strategy 3 - Trusts

*(Why trusts remain the cornerstone of smart inheritance planning
— and how Family Investment Companies became the modern
alternative)*

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If there's one word that causes both confusion and curiosity in inheritance tax planning, it's "trust."

Most people have heard of them. Very few actually understand how they work. And almost nobody realises just how powerful they can be when used properly.

The Problem We're Trying to Solve

Inheritance tax isn't just about money. It's about control, timing, and fairness.

Most people's estates face three big problems:

- 1 Children inheriting directly — which sounds fine until you realise it exposes the inheritance to divorce, debt, or bad decisions.
- 2 Property growth — which keeps inflating the size of the estate while the nil-rate bands stay frozen.
- 3 Balancing spouse protection and children's inheritance — a moral and financial tightrope that many families never quite get right.

Trusts can address all of these problems in one move. When structured well, they protect the assets, reduce inheritance tax, and make sure wealth is passed on responsibly.



What a Trust Really Is

Forget the jargon — a trust is just a safe box for your assets.

You (the settlor) put assets inside.

The trustees act as keyholders — they manage what's inside the box.

The beneficiaries are the people who benefit from the contents, usually your spouse, children, or grandchildren.

The beauty of a trust is that, once the assets are inside, they can grow outside your estate — meaning the future growth isn't counted for inheritance tax purposes.

That's the magic of it: you're separating ownership from benefit.



The Three Main Types of Trust

There are dozens of specialist versions, but the three you really need to know are:



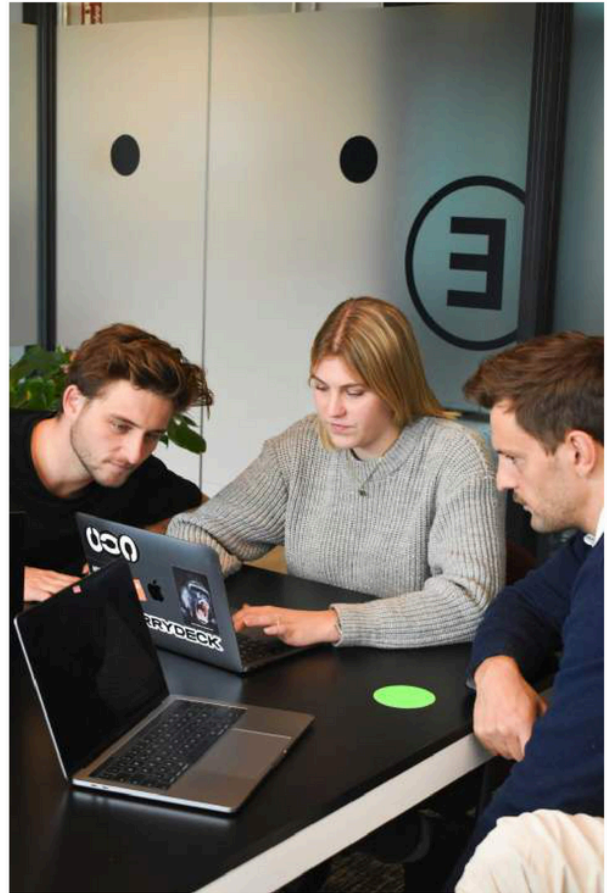
1. Bare Trust

A Bare Trust is the simplest form — like putting assets in a sealed envelope with someone's name on it.

The beneficiary (say, your child) has an absolute right to the money inside. It's taxed as their asset, not yours.

It's often used for gifting to minors or grandchildren, because you retain control until they reach 18, at which point the assets legally become theirs.

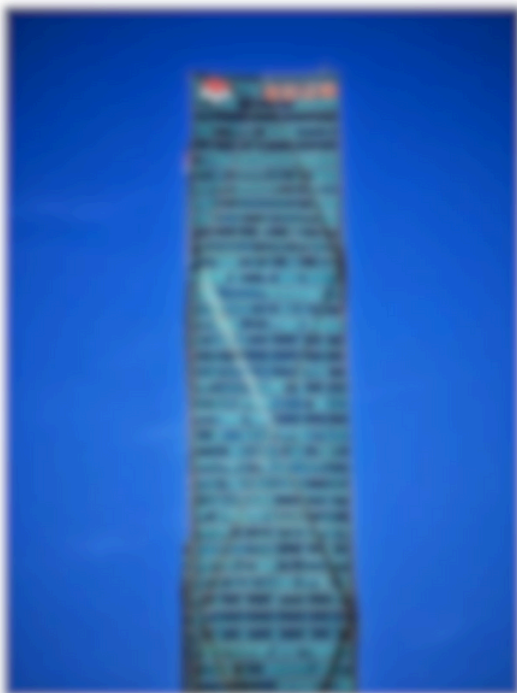
It's simple, clear, and cost-effective — but it offers no flexibility once the beneficiary comes of age. You can't change your mind, and you can't protect it from divorce or bad spending decisions later.



2. Interest in Possession Trust (Life Interest Trust)

This is the spouse protection trust – the one we discussed in the previous report about protecting the home.

It's designed to give your spouse the right to live in and benefit from assets (like your home) for life, while preserving ownership for your children later.



The key benefit is that the value is locked at the time of the first death. If the property doubles in value, the trust's share remains calculated at the earlier valuation, reducing future inheritance tax.

It also protects against remarriage, care home assessments, and ensures your children's inheritance remains intact.

Think of it as protecting your partner without disinheriting your kids.

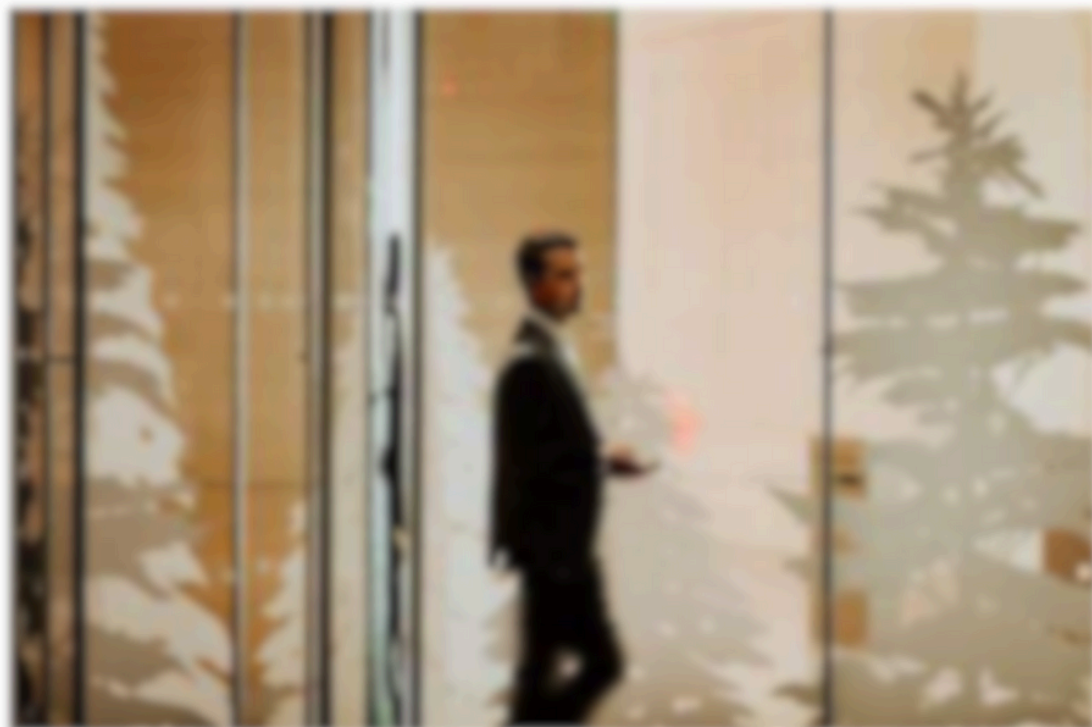
3. Discretionary Trust

This is the most flexible – and the most misunderstood type.

A Discretionary Trust lets the trustees decide who gets what, when, and how much. The beneficiaries are usually listed as a group (e.g. "my children and grandchildren"), but nobody has an automatic right to the money.

That flexibility is why discretionary trusts became so powerful – and, for a while, too powerful.





Before 2006, many wealthy families used them to move assets out of their estates while still keeping control. The result? Billions of pounds sheltered from inheritance tax – all perfectly legally.

The Government Fights Back

By 2006, the Treasury had had enough. The Finance Act of that year changed everything.

It introduced:

- A 20% entry charge on large transfers into discretionary trusts.
- A 10-year periodic charge (usually around 6%).
- An exit charge when assets were paid out.

The aim was simple – make discretionary trusts less attractive by layering them with complexity and cost.



And for a few years, it worked. Families backed off. Advisers had to rethink.

But the story doesn't end there.

The Birth of the Family Investment Company (FIC)

Out of that 2006 reform came one of the cleverest evolutions in modern estate planning – the Family Investment Company (FIC).

Advisers started realising that if trusts were being penalised, perhaps private companies could achieve the same outcomes in a different form.

So they built corporate structures that mimicked trusts but used company law instead of trust law.

- Parents would set up a private company.
- They'd invest money or assets into it as a loan (often £500,000 or £1 million).
- They'd hold voting shares to retain control.
- The growth shares would be issued to children or a trust – meaning the future growth would sit outside the parents' taxable estate.



It was brilliant. Legal. Transparent.
And tax-efficient.

By 2010–2012, Family Investment Companies had become the go-to vehicle for high-net-worth families.

HMRC Takes Notice

As always, when something works too well, HMRC pays attention.

In 2019, the government quietly set up the Family Investment Company Unit (FICU) – a special department tasked with studying how these structures were being used.

Everyone expected a clampdown.

But after several years of research, HMRC concluded that FICs are legal and acceptable for inheritance tax and succession planning, provided they're run properly and not used for personal spending or undervalued share transfers.

So far, FICs have stood the test.

Who Are They For?

Traditionally, FICs were used by families with estates of £5 million or more.

That's still the most common bracket – high-value estates, business owners, and investors looking to build generational wealth.

But they can also work effectively for estates worth £2–3 million and above, especially when there's a mix of property, cash, and investments.

The key is scale and structure – if your estate is large enough that inheritance tax is inevitable, a Family Investment Company might not just reduce the bill, it can completely reshape how your wealth is owned and controlled.

Benefits of Trusts and FICs

Whether you use a trust or a Family Investment Company, the principles are the same:



- ✔ Remove the biggest assets from your taxable estate.
- ✔ Control when and how your children inherit.
- ✔ Let the assets continue to grow outside your estate.
- ✔ Protect wealth from divorce, debt, or bad decisions.

Of course, there are practical realities too:

- ✗ Setup costs (£5,000–£10,000).
- ✗ Annual administration (trustee meetings, records, filings).
- ✗ Possible ongoing fees (£1,000–£2,000 per year).
- ✗ Periodic charges (for certain trust types).
- ✗ You can't place your ISA or pension directly into a trust.

These aren't free tools – but compared to a potential 40% loss of your estate, they're worth every penny.

Why Complexity Exists

People often ask why the UK system has so many types of trusts, each with different tax treatments.

It's not accidental. It's deliberate complexity.

If inheritance planning were simple, everyone would do it. The government knows that only those with the money, patience, and persistence to seek professional advice will go far enough to make it worthwhile.

That's why trusts have survived for centuries. They're not loopholes – they're legitimate legal structures designed for the very purpose of managing and passing on wealth efficiently.

Used carelessly, they're just paperwork.

Used properly, they're the safest box in the tax system.



Final Thoughts

Trusts and Family Investment Companies aren't magic. They require careful design, professional oversight, and long-term discipline. But when you get them right, they achieve something almost no other structure can – control, protection, and tax efficiency all in one place.

For families serious about generational wealth, they're not optional extras. They're the foundation.

Important Note

I'm not a qualified tax expert, and I'm not FCA regulated. Nothing in this report – or in any of the videos or materials in the Market Insider IHT series – should be taken as personal tax advice.

Everything I've shared here is purely educational, based on what I've personally seen work for families who want to protect their legacy.

If you'd like proper, regulated guidance, you can contact me and I'll introduce you to one of our FCA-approved IHT specialists who can walk you through your options.

This report – like all the others in the Market Insider IHT series – is designed to educate, not advise. Because understanding how the system works is the first step to making it work for you.



Strategy 3 -...

"Strategy 3 - Trusts" reveals the transformative power of trusts in inheritance planning, showcasing how they protect assets and ensure responsible wealth transfer. This essential guide demystifies trusts and introduces Family Investment Companies as modern alternatives, tackling the complexities of inheritance tax, control, and fairness. Empower your legacy with strategies that safeguard your family's future and optimize wealth management.