How to Use Trusts for Long-Term Family Wealth Planning

Trusts are a practical way to organise how assets pass to family members over time. They allow a settlor to place assets under the control of trustees, who manage them for the benefit of chosen beneficiaries. When used carefully, a trust can help reduce inheritance tax exposure, protect assets from future creditors, and provide for younger generations without giving them full control too early. This article explains the main steps involved in setting up and managing a trust for long-term family wealth planning, with practical things to watch at each stage.

Step 1: Clarify your aims and the people you want to benefit

The first step is to ask yourself what you want the trust to achieve. Common aims include passing on a family home to children while avoiding a large inheritance tax bill, setting aside money for a grandchild's education, or providing an income for a relative who cannot manage a lump sum themselves. You also need to identify the beneficiaries - the people who will receive income or capital from the trust. Some trusts name specific individuals, while others leave the trustees discretion to decide who gets what and when.



What to watch: Make sure your aims are realistic under current tax rules. The relevant property regime, for example, applies charges when assets are placed into most trusts and at each ten-year anniversary. Knowing these charges at the outset helps you decide whether a trust still makes sense for your situation.

Step 2: Choose the right type of trust

The trust you select determines how much control you keep, how the assets are taxed, and when beneficiaries can receive them. The main types are bare trusts, discretionary trusts, and interest in possession trusts. A bare trust is simple: beneficiaries have an immediate right to the capital and income once they turn 18. A discretionary trust gives trustees flexibility to decide how and when to distribute assets, which is useful if you are unsure about future circumstances. An interest in possession trust gives a named beneficiary the right to income from the trust for a period, with the capital passing to others later.

What to watch: A discretionary trust is often the most flexible option for long-term planning, but it falls within the relevant property regime and can trigger charges on entry, at ten-year intervals, and when assets leave the trust. A bare trust avoids those charges but gives young

beneficiaries control at 18, which may not suit your aims. Compare the tax treatment of each type with your likely asset value before deciding.

Step 3: Draft a clear trust deed

The trust deed is the legal document that creates the trust. It names the settlor, the trustees, and the beneficiaries, and sets out the powers of the trustees and the terms on which they hold the assets. A well-drafted deed covers what happens if a trustee dies or resigns, how new trustees are appointed, and whether the trust can be amended or ended early. It should also state whether the trustees have the power to add or remove beneficiaries, which gives flexibility for changing family circumstances.

What to watch: The trust deed is the foundation of everything that follows. A vague or incomplete deed can lead to disputes, unintended tax consequences, or an inability to adapt the trust later. Have the deed prepared by a solicitor who specialises in trusts and inheritance tax planning. Do not rely on a generic template that does not consider your specific assets or family situation.

Step 4: Appoint suitable trustees

Trustees are the legal owners of the trust assets and manage them in the interests of the beneficiaries. You can appoint family members, friends, or professional trustees such as a solicitor or an accountant. Professional trustees charge fees but bring expertise in tax, investment, and administration. Family trustees may understand the beneficiaries better but might lack experience in managing complex assets or making difficult decisions.

What to watch: Think about the balance between trust and skill. If you appoint only family trustees, consider adding a professional trustee to help with tax returns, record-keeping, and investment decisions. Make sure the trustees understand their duties - they must act in the best interests of the beneficiaries, avoid conflicts of interest, and keep proper accounts. A trustee who does not take their role seriously can cause the trust to fail in its purpose.

Step 5: Transfer assets into the trust

Once the trust deed is signed and trustees are appointed, the settlor transfers assets into the trust. This might be cash, shares, property, or other investments. The transfer itself can be a chargeable event for inheritance tax purposes, depending on the value of the assets and the type of trust. If the value exceeds the settlor's available nil-rate band, a tax charge applies immediately.

What to watch: Timing matters. Transferring assets when their value is low can reduce the upfront charge. For example, if you are transferring shares, choosing a period when the market

is down might save tax. Also consider whether the asset qualifies for business property relief or agricultural property relief, which can reduce the value subject to tax. Get professional advice before making the transfer so you know the likely charge and can plan accordingly.

Step 6: Manage the trust and make distributions

After the trust is set up, the trustees take over. They must invest the trust assets appropriately, file tax returns for the trust, and keep records of all decisions and transactions. Depending on the trust type, the trustees may need to decide when to make distributions to beneficiaries. In a discretionary trust, they have wide powers to decide how much income or capital to distribute and to whom. In a bare trust, the beneficiary can demand their share at 18.

What to watch: Trust administration is ongoing. Trustees must stay on top of filing deadlines for trust tax returns and payment of any tax due. They should also review the trust's investments regularly to ensure they are suitable for the beneficiaries' needs and the trust's objectives. For families with a longer planning horizon, structuring trusts for family wealth over several decades requires regular reviews of the trust deed and the tax rules that apply.

Step 7: Review the trust periodically

Family circumstances change, and tax rules change too. A trust set up when children were young may need adjusting if they later develop financial problems, get divorced, or have children of their own. The trustees should review the trust at least every few years to check whether the original aims still hold and whether the trust is still the most efficient arrangement. In some cases, it may be possible to vary the trust or appoint assets to a new trust to better match the family's current situation.

What to watch: Do not assume a trust is set and forget. A trust that was perfectly sensible ten years ago may now be causing unnecessary tax charges or restricting the family's options. For families with complex assets or changing needs, structuring trusts for family wealth as a flexible long-term strategy means staying informed and being prepared to adapt. Professional reviews help catch issues early before they become costly.

Step 8: Plan for the end of the trust

Most trusts are designed to last for a defined period, often until the youngest beneficiary reaches a certain age or until the death of a particular person. When the trust ends, the trustees distribute the remaining assets to the beneficiaries. This distribution can trigger an exit charge under the relevant property regime, so the timing and method of distribution matter.

What to watch: Plan the exit strategy from the start. Knowing when and how the trust will end helps you decide on the type of trust and the initial transfer. If you expect the trust to last for

many years, consider whether a trust that ends at a specific age or event still makes sense for your beneficiaries. For example, distributing a large capital sum to a young adult may not be wise if they lack experience managing money. You might instead structure the trust to end gradually, with trustees distributing capital in stages.

Final thoughts

Trusts are not a one-size-fits-all solution, but when chosen and managed carefully they can be a reliable tool for passing wealth across generations. The key is to start with clear aims, choose a trust type that matches those aims, draft a solid trust deed, appoint trustees who will act responsibly, and keep the trust under regular review. Tax rules around trusts are detailed and change periodically, so independent professional advice is essential at every stage. With proper planning, a trust can help your family preserve wealth and avoid unnecessary tax, while giving you confidence that your intentions will be carried out over the long term.