

Will Trusts v Lifetime Trusts: A Practical Guide

Fact Sheet



This fact sheet is designed to assist in identifying key differences between Will trusts and Lifetime trusts and identifying an appropriate course of action for clients.

Trusts remain one of the most misunderstood areas of estate planning. For some clients, they are seen as overly complex, inflexible, or only relevant to the very wealthy. For others, they are viewed as a catch-all solution. In reality, trusts are simply tools – and like any tool, their effectiveness depends on how and when they are used.

This guide breaks down the key differences between **will trusts** and **lifetime trusts**, explores the advantages and disadvantages of each, and outlines the inheritance tax (IHT) implications advisers need to consider. The aim is not to promote one over the other, but to help advisers cut through common myths and deliver genuinely tailored estate planning solutions.

What is a Will Trust?

A will trust is created on death, through the terms of a client's will. The trust does not exist during the client's lifetime and only comes into effect once probate has been granted and assets are transferred into the trust.

Common examples include discretionary trusts, life interest trusts and trusts for minors or vulnerable beneficiaries.

Advantages of Will Trusts

- **No loss of control during lifetime** – the client retains full ownership and access to assets until death.
- **No lifetime IHT charge** – assets passing into most will trusts are taxed as part of the estate, avoiding entry charges.
- **Flexibility for beneficiaries** – particularly with discretionary trusts, allowing trustees to adapt to changing family circumstances.
- **Useful for asset protection on death** – for example, protecting assets for children while allowing a surviving spouse or partner to benefit.

Disadvantages of Will Trusts

- **Planning happens later** – opportunities to reduce IHT may be more limited compared to lifetime planning so both need to go hand in hand.
- **Probate required** – assets cannot be settled into trust until probate is completed.
- **Potential complexity for trustees** – particularly where trusts are created without adequate guidance or professional support.

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What is a Lifetime Trust?

A lifetime trust (also known as an inter vivos trust) is established during the client's lifetime, with assets transferred into trust immediately. Common forms include discretionary trusts, bare trusts and interest in possession trusts. Lifetime trusts are often used where clients want to take proactive steps to manage succession, protect assets, or mitigate IHT during their lifetime.

Advantages of Lifetime Trusts

- **Early IHT planning** – assets may fall outside the estate after seven years, subject to the type of trust and value transferred and interest retained by the settlor.
- **Asset protection** – once assets are in trust, they are generally protected from future claims such as divorce or bankruptcy (subject to timing and intent).
- **Control through trusteeship** – clients can act as trustees, retaining influence over how assets are managed and distributed.
- **Clarity and certainty** – beneficiaries and trustees can understand arrangements while the settlor is still alive.

Disadvantages of Lifetime Trusts

- **Immediate IHT considerations** – some transfers trigger entry charges and/or use the lifetime nil-rate band.
- **Loss of access** – depending on trust structure, the settlor may not be able to benefit from the assets.
- **Ongoing administration** – including trust accounts, tax returns and compliance obligations.
- **Perception issues** – clients may feel they are 'giving assets away too soon', even where this is not strictly the case.

Inheritance Tax Considerations

Understanding the IHT treatment is critical when advising on trusts:

Will Trusts and IHT

Assets transferred into a will trust are generally taxed as part of the deceased's estate. Spouse and charity exemptions may apply before assets reach the trust. Keep in mind that discretionary will trusts are subject to the **relevant property regime**, meaning periodic (10-year) and exit charges may apply after creation.

Lifetime Trusts and IHT

Transfers into most discretionary lifetime trusts are **chargeable lifetime transfers (CLTs)** and entry charges may apply at 20% on amounts exceeding the available nil-rate band. If the settlor survives seven years, the value transferred is outside the estate and relevant property trusts are also subject to 10-year and exit charges.

The key point for advisers is that IHT efficiency is not solely about minimising tax at all costs, but about balancing tax outcomes with control, flexibility and the client's wider objectives, family structures and personal values.

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Dispelling Common Trust Myths

- **“Trusts are only for the wealthy”** – in reality, trusts can be appropriate for a wide range of clients, particularly blended families, business owners and those with vulnerable beneficiaries.
- **“Trusts mean losing control”** – many structures allow clients to retain significant influence through trustee roles and carefully drafted powers.
- **“Trusts are inflexible”** – modern trusts are often designed with wide discretionary powers and review mechanisms.

Delivering Personalised Estate Planning Solutions

The decision between a will trust and a lifetime trust should never be a default choice. Effective advice starts with understanding the client’s family dynamics, asset profile, risk concerns and long-term intentions.

For many clients, the optimal solution may involve a combination of lifetime planning and well-structured will trusts. For others, simplicity and clarity may outweigh potential tax savings.

By reframing trusts as practical planning tools rather than technical obstacles, advisers can help clients make informed decisions and deliver estate planning strategies that are both tax-efficient and aligned with their personal goals.

If you would like to explore how trusts can be integrated into tailored estate planning solutions for your clients, the team at BTWC can provide specialist support and guidance.

Useful Contacts

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