

Quick reference guide – Who pays tax within a Trust?

Quilter

This guide provides a general overview of the taxation of various types of trust.

| Trust Structure | | Capital Gains Tax | Income Tax | Investment Bond Gains | IHT Treatment |
|-------------------------------|--|-------------------|--|---|--|
| Discretionary Trust | Settlor is not a potential beneficiary | Trustees | Trustees | Settlor++ – For gains arising during their lifetime and tax year of death. The trustees thereafter. | <ul style="list-style-type: none"> – Gift to trust is a Chargeable Lifetime Transfer – Periodic charges may apply every 10 years – Exit charges may apply to capital leaving the trust |
| | The Settlor is a potential beneficiary | Trustees | Trustees, though also reported by the Settlor* | Settlor++ | <p>As above and:</p> <ul style="list-style-type: none"> – Gift with Reservation (GWR) rules apply. The value of the trust fund is contained within the settlor's estate. – GWR does not apply where settled via a deed of variation to a Will / Intestacy as if drafted correctly the settlor for IHT purposes is the deceased. |
| Absolute Trust | | Beneficiary | Beneficiary** | Beneficiary** | <ul style="list-style-type: none"> – Gift to the trust is a Potentially Exempt Transfer (PET) – The trust fund forms part of the beneficiary's estate |
| Interest in Possession Trusts | | Trustees | Trustees unless income is mandated to (paid straight to) Life Tenant (the beneficiary entitled to income). Where mandated, the income is assessed directly on beneficiary. | Settlor++ – For gains arising during their lifetime and tax year of death. The trustees thereafter. | <p>Qualifying Trusts +</p> <ul style="list-style-type: none"> – No periodic or exit charges. – Trust fund forms part of the life tenant's estate <p>Non-Qualifying Trusts +</p> <ul style="list-style-type: none"> – Periodic charges may apply every 10 years – Exit charges may apply to capital leaving the trust |

*The trustees report the income and pay trustee rates of tax. The income is also added to the settlor's income with a deemed tax credit of 45%. The settlor may reclaim some or all of that tax credit depending whether they are themselves a non, basic or higher rate tax payer. If they are eligible to reclaim any tax credit they then pass this back to the trust.

** Subject to the Parental Settlement Rules. Applies where the beneficiary is a child of the settlor under age 18. If income exceeds £100 in the tax year, then all income is taxed as the settlors. Else, the beneficiary is personally liable to tax.

+ Qualifying trusts – An interest in possession (IIP) created before or on 22 March 2006, where there has been no alteration to the life tenant since 6 October 2008. OR any IIP created via a Will trust. Non-Qualifying - An IIP which was created after 22 March 2006 (other than a via a Will).

++ The settlor is usually the person which created the trust. Where there is more than one settlor, divide the bond gain between them and apply these rules separately. This may result in differing tax treatments for example, where one settlor died in an earlier tax year. Where a trust is created via a deed of variation, the settlor is the person which has forgone rights under the Will / Intestacy.

Tax rates for trustees - 2025/26 tax year

Where the trustees pay the tax, the following rates and allowances apply:

Income Tax

| | |
|---------------|-------------|
| Tax free band | Up to £500* |
| Dividend | 39.35% |
| Other income | 45% |

*Divided by the number of settlements by the same settlor - subject to a minimum of £100. Where total trust income exceeds £500, no band applies and all income will be taxed.

Capital Gains Tax

| | |
|-----------------------------|-------------|
| Tax free band | Up to £500* |
| Where gains exceed the band | 24% |

**Divided by the number of settlements by the same settlor - subject to a minimum of £300

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