

What are Pilot Trusts?

Pilot Trusts are Trusts set up during the lifetime of the Settlor (the person 'settling' property in the Trust) to receive property on the death of the Settlor – such as Pension & Life Assurance payments, Business shares, or a legacy gifted via their Will.

The Pilot Trust would normally be discretionary in format and is created with a Trust Fund of as little as an 'unfranked' 1st class postage stamp. The Trustees could be the Settlor (during their lifetime!) and their spouse, and anybody else suitable to act as Trustee depending on the specific circumstances.

The Settlor should leave a Letter of Wishes for the Trustees of the Pilot Trust, leaving guidance to the surviving Trustees to explain why the Trust was created, who is to benefit, and in what way.

When to use a Pilot Trust

1) To receive payments from a Life Assurance or Pension Policy after death: Ensuring the Policy pay's into a Pilot Trust after the death of the policy holder, means it will not be added to the value any individual's estate (eg the Testator or their spouse) for IHT calculations. It also ensures the money is available immediately after death, rather than having to wait for the Grant of Probate, which may be 9 months or more after death leaving the family in financial difficulties.

2) To receive the shares of a trading business during the settlors lifetime: g before a company sale, as such a business should qualify for 100% Business Property Relief. The use of the Pilot Trust enables the proceeds of sale to sit outside the Settlor's estate, for both disposal and tax planning purposes

3) To receive legacies in your lifetime or via a Will, to protect the beneficiary's inheritance: Pilot Trusts are very beneficial when used to receive Company shares - to retain the relevant management control while providing for non-company beneficiaries - or to receive the legacies of minor children, people with capacity issues or wayward beneficiaries who would not be capable of managing their own money. Also where a beneficiary is in a 'risk situation', such as being subject to a possible future divorce or bankruptcy. Each Trust could have different Trustees eg the relevant parents for minor beneficiaries.

Setting up Pilot Trusts

Pilot Trusts can be set up quickly and easily. They must be signed by all the Settlor/s and Trustees, dated, and the 'initial finds' attached to the Trust Deed – eg an unfranked 1st class stamp or £10 note. The Trust is then 'live', but does not have to be notified to HMRC for tax purposes until it receives income or starts to make capital gains (profits over £1,000 p.a).

Where the Trust is to receive a Life or Pension Policy, the policy holder must notify the Provider of the change in beneficiary (to be their Trust). Providers may wish to view a copy of the Trust.

Pilot Trusts set up to receive funds after the Settlor's death should be stored, fully completed, with the Settlor's Will.