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Legal

What is a Life Interest Trust?

Many of us worry about what happens to our assets when we die. For those who would like to leave something to their children a life interest trust is one way of securing that.

A life interest trust means you have the use of an asset during your lifetime but give it back when you die. This doesn't work that well with money. Unless you have enough to buy a house. If you can live in a house during your lifetime and give it back when you die you enjoy similar benefits to ownership. You don't pay rent though and there are no pesky mortgage payments.

I often recommend life interest trusts when clients make a will. If they are concerned about nursing home fees or their spouse (or civil partner, rules are the same for both) remarrying after their death and the children inheriting nothing as a result.

Your Will provides that your spouse on your death, receives a life interest in your share of the



Nigel George Tep
Partner in charge of Life Planning

property. After their death your share of the property goes to your children or other beneficiaries you wish to inherit it.

Your spouse can move and buy another property, they can even downsize and spend their own share of the property and buy a smaller house with your life interest.

Example, Bob and Jane had a house worth £600,000. On Bob's death, Jane inherits a life interest in Bob's share of the property. Jane wants to raise some cash and move to a smaller property. She sells the house, buys a new one for £300,000 in which she has only a life interest having used Bob's half of the property. Her

own £300,000, her share of the property is hers to do with as she pleases.

There are no inheritance tax implications. The Taxman treats the property the same as he would if it was inherited outright. All assets passing between spouses are exempt from inheritance tax.

There are no implications for nursing home fees as it is only the deceased spouse who is giving away an asset. The problem arises when you seek to put your property in trust during your lifetime with a view to avoiding nursing home fees.

This arrangement is also adopted on second marriage, following the death of the first spouse. The surviving spouse is keen for their children to inherit the property but equally wants their new spouse to have a home during their lifetime. In such cases do think about repairs and any new partner of a second spouse, if surviving spouse dies.

It's important to plan to make sure this works properly. You need a will. If you want to ensure your hard-earned assets go to those you love then give me a call.

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The article is intended only to provide an overview of the position. It should not be relied on in place of specific advice. For more detailed advice, please email the author ngeorge@garner-hancock.co.uk. We look forward to speaking with you in relation to your individual requirements.