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This is the most straightforward type of trust that you can create. It is both basic and easy to understand.

What is a bare trust?

Bare trusts are also known as 'simple trusts'. It is a trust where the beneficiary (there is usually only one but there is no reason why there cannot be more than one) has the immediate right to both the capital and the income held in the trust.

Once the trust has been set up, the beneficiary cannot be changed.

As with all trusts the assets are transferred into the trust by the settlor. The assets are then held in the names of the trustees. The settlor and the beneficiary can be the same person.

What rights do the trustees have?

The trustees have absolutely no discretion. They have no practical control over the assets; they merely hold the assets in their name only.

They cannot withhold the capital or income and must pay either the capital or income to the beneficiary at their request.

Why would you use a bare trust?

Such trusts are particularly useful for grandparents who wish to make gifts to their grandchildren or for people who have received compensation for a personal injury.

Where a trust is established for a young child, the gift would be held in the trust until the child reaches the age of 18. At that point the child could demand that the trust fund be transferred to them. As previously noted, the trustees would have to comply with their request.

Tax treatment?

The tax treatment for this type of trust is very straightforward. The beneficiary is liable for income tax and capital gains tax arising within the trust.

This is a very useful advantage, especially if a minor child is a beneficiary as they can use their own personal allowances. A word of warning however, if the trust was established by the parent of a young child and the income exceeds £100 per tax year then the income is subject to the parent's income tax position.

Inheritance tax may be payable if the settlor dies within 7 years of making the gift.

How can Greenwoods GRM help?

The Private Client Team at Greenwoods GRM will be able to advise you as to whether this trust is suitable for your circumstances and will explain fully all of the options available to you.

We are experienced in working in the role of a professional trustee or working behind the scenes advising the trustees as and when necessary.

Contact +44 (0)1733 887665 and ask to speak to a member of our Private Client Team.

Whilst Greenwoods GRM LLP stands by the views and advice given in this document, the fact that two situations are rarely the same means that you should seek legal advice before relying on its contents.