Creating a Disabled and Vulnerable Person's Trust

A Guide for Parents, Carers and Families

Helping to protect a loved one's future with confidence, dignity and peace of mind

Planning for the future of a disabled or vulnerable loved one can feel overwhelming. Many parents and carers worry about questions such as:

- What will happen when I am no longer able to provide support?
- How can I leave money or property without affecting benefits?
- Who will help manage finances if my loved one is unable to do so independently?
- How can I ensure funds are used in the way I intended?

A **Disabled and Vulnerable Person's Trust** can be an important tool to help provide security, flexibility and protection for the future. Many families worry that a beneficiary could be financially exploited, be pressured by others, spend money too quickly, or struggle to manage complex finances.

A trust can provide an additional layer of protection while still enhancing the beneficiary's quality of life. This guidance explains the key principles in clear, practical language. It is intended as an introduction and does not replace personalised legal advice.

What Is a Trust?

A trust is a legal arrangement where assets (such as money, investments or property) are held and managed by trusted individuals for the benefit of another person.

There are usually three key parties:

1. **The Settlor**

   The person who creates the trust and places assets into it.

2. **The Trustees**

   The people responsible for managing the trust and making decisions in accordance with the trust deed.

3. **The Beneficiary**

   The person who benefits from the trust.

In a disabled person's trust, the beneficiary is typically a disabled or otherwise vulnerable individual whose long-term financial security is being protected.

Why Consider a Disabled or Vulnerable Person's Trust?

Families often establish these trusts to:

- Protect a loved one's financial future
- Provide ongoing support after parents or carers have died
- Help manage money safely and responsibly
- Preserve flexibility for changing circumstances
- Protect assets from financial exploitation

- Potentially access favourable tax treatment
- Help ensure funds are used to enhance quality of life

A trust can provide reassurance that assets will be managed by people who understand the beneficiary's needs and wishes.

Who Can Benefit?

The law provides special tax treatment for certain trusts established for "vulnerable beneficiaries".

According to HM Revenue & Customs (HMRC), a vulnerable beneficiary may include:

- A disabled person who qualifies for certain disability benefits;
- A person unable to manage their affairs because of a qualifying mental health condition; or
- Certain bereaved children under the age of 18.

Eligibility is a technical area and should always be confirmed through professional advice.

How Can a Trust Help?

Providing Financial Security

A trust can hold:

- Savings
- Investments
- Property
- Inheritance funds
- Life insurance proceeds
- Compensation awards

Supporting Independence

A trust can help fund:

- Specialist equipment
- Therapies
- Education and training
- Holidays and social activities
- Adaptations to a home
- Additional care and support

Trustees can then use these funds for the beneficiary's benefit over many years.

Rather than providing a large lump sum directly, trustees can make decisions over time according to the beneficiary's needs.

Does a Trust Affect Benefits?

This is often one of the most important questions for families.

The interaction between trusts and means-tested benefits can be complex. A properly drafted disabled person's trust may help avoid assets being treated in the same way as funds held directly by the beneficiary.

However, every family's circumstances are different.

Benefits rules change regularly and specialist legal advice should always be obtained before making decisions.

Setting up the Trust

Choosing Trustees

Selecting trustees is one of the most important decisions you will make.

Trustees should be:

- Trustworthy
- Organised
- Financially responsible
- Willing to act for many years
- Able to work together effectively

Many families choose a combination of:

- Family members
- Friends
- Professional trustees (such as solicitors)

Questions to Consider

- Who understands my loved one's needs?
- Who will still be able to act in the future?
- Who can make balanced financial decisions?
- Who will advocate for the beneficiary's best interests?

What Are Trustees Responsible For?

Trustees have legal duties and must act in the beneficiary's best interests. They are bound to follow the terms of the trust, manage trust assets responsibly, keep records and accounts, comply with tax and reporting requirements, and make decisions carefully and fairly.

Being a trustee is an important role and should never be accepted lightly.

When Should a Trust Be Created?

A trust may be created:

1. **During Your Lifetime-** Parents or carers place assets into trust while they are alive.
2. **Through a Will-** Many families create a trust within their will so that assets pass into the trust after death.

A will trust is often a key component of long-term planning for disabled or vulnerable family members.

Tax Considerations

Certain trusts for vulnerable beneficiaries may qualify for special tax treatment.

HMRC refers to these as **"trusts for vulnerable beneficiaries."** Special rules may apply for, Income Tax, Capital Gains Tax, and Inheritance Tax.

For example:

- Trustees may be able to claim tax reductions in some circumstances.
- Certain disabled person's trusts may benefit from exemptions from some of the Inheritance Tax charges that apply to other trust types.

Tax rules are detailed and can change over time, so professional advice is essential.

Demystifying Trusts

- **"Trusts are only for wealthy families."**

Not true.

Many disabled person's trusts are created by families of ordinary means who simply want to provide long-term security and support.

- **"My child will lose all control."**

Not necessarily.

Trusts can be drafted in different ways and may allow varying degrees of involvement depending on the beneficiary's circumstances and capacity.

- **"I can do this later."**

Future planning is often easier when completed before a crisis occurs.

Creating a trust can take time and careful consideration, so starting conversations early can be beneficial.

Practical Planning Checklist

Consider the following questions:

- What assets might I wish to leave?
- What are my loved one's current and future needs?
- Who should act as trustees?
- Should professional trustees be involved?
- Have I made or updated my will?
- Have I considered a Letter of Wishes?
- Have I discussed my plans with family members?
- Have I obtained specialist legal and tax advice?

A Letter of Wishes

Alongside a trust, many parents prepare a **Letter of Wishes**.

Although not legally binding, it can provide valuable guidance to trustees about:

- The beneficiary's needs
- Daily routines
- Hobbies and interests
- Living arrangements
- Personal values and preferences
- Future hopes and aspirations

For many families, this document becomes one of the most meaningful parts of the planning process.

Looking Ahead with Confidence

Creating a disabled or vulnerable person's trust is about more than financial planning.

It is about:

- Preserving dignity
- Promoting independence
- Protecting quality of life
- Providing security
- Creating peace of mind for the future

Every family's circumstances are unique, and the right trust structure will depend on individual needs, assets and objectives.

With thoughtful planning and appropriate advice, a trust can become a powerful tool to support a loved one for many years to come.

Contact Us for Assistance

Need help or have questions?

Our team is here to assist you in understanding and creating your Lasting Powers of Attorney, Advance Decisions or a Commercial Power of Attorney. Contact us for a consultation today.

Nicola Pluck (Director & Head of Private Client)

Phone: 01553 386103 / 07873 825096

Email: npluck@burridgepluck.co.uk

Hollie Nelson (Trainee Solicitor)

Phone: 01553 386103

Email: hnelson@burridgepluck.co.uk

Disclaimer: *This booklet provides general information only and does not constitute legal, financial or tax advice. Professional advice should always be obtained before creating or transferring assets into a trust.*