

Also in the event that the trustee takes care of the payment of the taxes on behalf of the beneficiary, it is the beneficiary who is tax-liable.

10.3. Interest in Possession Trust

In this form of trust, the beneficiary, in this case also called the *income beneficiary*, is entitled to receive the income generated by the trust. The trustee must give the entire income of the trust (after deduction of expenses incurred and taxes paid by him) to the income beneficiary. It is possible that the beneficiary is entitled to receive these payments for his entire life, in which case he is referred to as a *life tenant*.

The income beneficiary has however no claim to the trust's capital. In most cases, the capital is destined for another beneficiary and intended for payments at a future date (which is usually determined in advance). Such a beneficiary is called a *remainderman* or a *capital beneficiary*. *Interest in possession trust*, the trustee has more rights than in the bare trust. For instance, he may also make payments to the beneficiary out of the trust capital.

Taxation

The trustee is tax-liable for all income earned, in particular:

- Rental and trading income is subject to a base rate of currently 22%.
- Dividend income realised in the UK is subject to the regular dividend tax rate of currently 10%; the tax credit associated with the net dividend reduces the taxes to be paid by the trustee.
- Income from savings (such as interest) is subject to a reduced rate of currently 20%. Income which is already subject to final taxation at source is accordingly deducted from the tax assessment basis.

The beneficiaries receive the payments after deduction of the taxes and fees that the trustee has paid out of the income. The income is used for certain purposes and the trustee's expenses need to be covered, too.

Payments to the beneficiaries are subject to the regular tax rates; however the beneficiaries receive a tax credit for taxes paid by the trustee.

In the event that a beneficiary is in the lowest bracket or tax-exempt at all, he may have a part or all of the taxes paid refunded. There are however no tax credits for dividend taxes. If a beneficiary is in a higher tax bracket, he or she must make additional tax payments.