may either use the income to maintain the beneficiary or retain the income generated in the trust.

Taxation

During the period in which the income is retained in the trust (accumulation period), both the trustee and the beneficiaries are subject to taxation (as in the case of a *discretionary trust*).

If the oldest beneficiary is over a certain age – usually 25 – and the accumulation period is not over yet, the trust is treated like a *mixed trust* for tax purposes.

When the accumulation phase has ended, the applicable tax rules depend on what is going to happen with the trust. If the trust is to be dissolved and the trust assets are to be transferred to the beneficiaries, the trustees may have to pay *capital gains tax* on the profits earned as of that date.

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10.6. Tax Pool

The managers or trustees of *discretionary trusts* or *accumulation and maintenance trusts* must make sure that the taxes have been paid before they distribute income to the beneficiaries.
The tax pool is composed of taxes that have been paid by the trustee at the rate required (trust or dividend-trust rate) and of taxes paid at the standard rate applicable to the first GBP 500 of income. The tax credits, such as for dividends, are not included in the tax pool. When the trustees distribute income to the beneficiaries, the tax pool is reduced by the amount of the tax credit on this portion of income.

If the taxes in the pool do not completely cover the tax credit for the beneficiaries, the trustee must come up with the remainder himself.

10.7. Mixed Trust

Most trust forms may also be combined, such as, for example, an *interest in possession trust* with a *discretionary trust* or an *accumulation and maintenance trust*. These trusts are then called *mixed trusts*.