Mandated trust income

Management of taxes | Personal tax

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Correspondence with HMRC clarifies when trust income is mandated to a beneficiary.

For an interest in possession trust (typically one where there is a life interest so that the life tenant is entitled to the income) where income is ‘mandated’ to the beneficiary, the trustees do not have to supply all the income details in the Trust SATR (SA900), and may even request to be taken out of the SA regime for future years.

Given that under the regimes applying since 6 April 2016 gross interest and dividends received by trustees would otherwise necessitate completion of a return and making payment of tax (at 20% for interest and 7.5% for dividends), there are time and cost savings for trustees in mandating income directly to the beneficiary. The liability then passes to the beneficiary and there is no statutory basis for assessing the trustees as they are no longer in receipt of income. Even if the beneficiary does not declare the income and pay the tax, liability cannot fall back to the trustees.

Recent correspondence by CIOT and ICAEW with HMRC has clarified what constitutes ‘mandated’, with HMRC stating that (until it is revoked) any standing instruction given by the trustees as to the payment of income before it falls entirely under their control would constitute a mandate. HMRC have provided their view on eight scenarios (which are set out with the summary of the correspondence on the CIOT website), and in particular accept as being mandated situations where:

- Investments are held by an investment manager in nominee accounts and the manager has a standing instruction to pay the income periodically, say quarterly, into the beneficiary’s bank account; and
- The life tenant manages real property, including repairs, and collects and returns the rent directly.

HMRC are also updating the relevant sections of the Trusts, Settlements and Estates Manual.