

Charitable trusts

Kerrie Le Tissier of Bedell explains why non-charitable purpose trusts can be a useful tool for estate planning and wealth preservation



Kerrie Le Tissier,
senior associate,
Bedell

Guernsey statutory law has provided for non-charitable purpose trusts (usually known simply as 'purpose trusts') since the Trusts (Guernsey) Law, 2007 (as amended) was brought into force in March 2008. This type of trust operates much in the same way as the more traditional types of trust structures and the form and contents of the trust documents are usually similar. The trustee still holds the trust property on trust subject to the powers and duties set out in the trust instrument and the legislation and the same requirements for a valid trust apply.

However, there are two key differences which mean that to those unfamiliar with them purpose trusts can appear to be a rather different beast. Firstly, the trust will be established for one or more non-charitable purposes (instead of or as well as beneficiaries or charitable purposes in a hybrid trust), with the trustee's overriding fiduciary duties including acting in the advancement

of those purposes (instead of or as well as in the interests of the beneficiaries or charitable purposes). Secondly, an enforcer (who cannot be the trustee but could be the settlor) must be appointed to enforce the trust in relation to its non-charitable purposes as there is no beneficiary that could enforce those purposes. The enforcer could have additional powers such as the power to appoint and remove trustees or its consent could be required before the trustee exercises certain powers (such as adding new purposes).

This article looks at the key issues to consider when establishing a purpose trust (and some of the common pitfalls) and explores some of the uses of purpose trusts in private wealth management.

Key issues

It is essential that the purposes are drafted clearly and with sufficient certainty to ensure that they are valid (from a legal perspective) and also that they work (from an administrative perspective). They should reflect the settlor's intentions and requirements and they should leave the trustee in no doubt as to what it can and cannot do with the trust property.

For instance, a common purpose is simply "to hold shares in X Limited". Whilst that is a lawful purpose (the legislation states that a purpose may be the holding or ownership of property),

if that is the sole purpose of the trust, how will the trustee know how to vote on matters put to it as a shareholder and what should it do with any dividends or other distributions received on the shares? A reference to exercising rights as a shareholder at the trustee's discretion should be included in the purposes at the very least. Guidance in respect of matters such as voting and distributions should ideally also be given to the trustee. This could be done by including additional purposes (for example, for the trustee to vote in a certain way on particular matters, such as the appointment and removal of directors or a change in the constitution of the company, or that distributions should be paid or transferred to a particular person or used to support another business). Alternatively (or additionally) guidance could be given in a non-binding letter of wishes which has the benefit that it could be changed more easily and so retain some flexibility in the structure if circumstances were to change. The appropriate solution will depend on how prescriptive the settlor wants to be.

Each purpose should also be drafted as specifically as possible so, in the above case, "X Limited" should be fully identified in terms of its full name, where it is incorporated and its registration number (and possibly also its registered office) to ensure there is no room for uncertainty.

The above considerations apply to any purpose, whether it be holding other types of assets or carrying on certain activities. When setting up a purpose trust, it is well worth stress-testing the purposes to determine whether they deal with all possible outcomes and eventualities, and whether the trustees have the guidance they need to fulfil their duties in the manner intended by the settlor. It is usually appropriate to take legal advice to ensure the purposes