

The advantages of placing a protection policy in trust for UK domiciles



This is an overview of the key benefits available to UK domiciles placing their policy in an appropriate trust. It is only a summary and should not be used alone to make any recommendation to a client. Friends Provident International Limited (FPIL) does not give tax or legal advice.

Faster payments on death

FPIL is an Isle of Man life assurance company. If the life assured is the sole policyholder and no-one has been nominated to receive the death benefits, FPIL will require a Manx Grant of Probate in order to pay the death benefits. A Grant of Probate will cost money to obtain and can take time, thus slowing down the payment of policy benefits to those who need it, often at a difficult time.

Where the protection policy is written in trust, FPIL can pay any proceeds to the surviving trustees without the need for a Grant of Probate.

UK inheritance tax mitigation

If a UK domiciled life assured is also the beneficial owner of a protection policy at the time of their death, the proceeds will form part of that person's estate for UK inheritance tax purposes.

The current rate of inheritance tax on death is 40% (to the extent that any available nil-rate bands have been exhausted). In some circumstances this can mean that significant sums of money intended to support those who really need it may effectively be lost in tax.

An appropriately worded trust can keep the protection policy outside of your client's estate for UK inheritance tax, meaning that the intended beneficiaries may benefit more fully. This provides extra liquidity and the proceeds can be used to pay any Inheritance Tax due on the estate.

Flexibility for changing circumstances

When your client takes out a protection policy they may not be entirely sure who they will want to benefit from any proceeds.

For example, younger clients may want the flexibility to add future children as potential beneficiaries.

An appropriately worded trust can include a number of potential beneficiaries with flexibility over who will ultimately benefit from the insurance proceeds and at which time.

Compatible with both illness and death benefits

Modern protection policies often contain illness benefits as well as death benefits.

For example, your client may need a policy which provides for a lump sum to be payable on death or earlier critical illness (as defined in the policy). In these circumstances, your client would be keen to ensure that they receive any critical illness benefits but their dependants receive any death benefits.

An appropriately worded trust can 'carve-out' any critical illness benefits for your client whilst still ensuring any death benefits pass to the dependents. This can also be achieved, where desired, for any terminal illness/ accelerated death benefits.

Protecting young children

It is typically not appropriate or possible for young children to deal with significant sums of money after a parent or guardian passes away, for example, when a life assurance claim is paid.

An appropriately worded trust will allow the adult trustees to hold and use any policy proceeds for the benefit of the young children, and pass any remainder to them in full when they are old enough to deal with it themselves.

Joint life policies

Where a couple needs a joint life policy they may want any benefits to pass to the survivor, but if that survivor were to die shortly after the first of them were to die, they might want any proceeds to pass to their dependants.

A trust with an appropriately worded reversion provision would be able to cater for this, thus providing your clients with the peace of mind they are looking for.

Notes:

An individual who is UK domiciled (or deemed UK domiciled) is potentially subject to UK Inheritance Tax on all of their worldwide assets, including any life assurance policies. See FPIL's other guides for UK expatriates for further information.

Where a policy is placed in trust, the appointed trustees become the legal owners of the policy.

FPIL offer a range of draft trust forms for the consideration of the client and their professional advisers. Please speak with your usual FPIL contact for further information.

Case study

Jeremy has a UK domicile. Having achieved a senior position in the commercial department of the London office of an international law firm, he was offered the opportunity to grow the business of the Abu Dhabi, Hong Kong and Singapore offices. Although Jeremy is no longer living in the UK, his wife and four children still live there.

Jeremy's financial adviser recommended a term assurance policy on Jeremy's life for family protection with a sum assured of **GBP 1,000,000** for his children. He already has cover in place for his wife.

Assuming Jeremy dies in July 2016 and is the sole policyholder at the time of his death and no beneficiary has been nominated under the policy, then:

- The entitlement to benefit from the proceeds would depend on the wording of Jeremy's will (if he has made one) or the relevant laws of intestate succession (if he has not). This could mean that Jeremy's children might not receive the proceeds, or, those people who are to control any proceeds for his minor children may be unclear about Jeremy's wishes.
- An Isle of Man Grant of Probate would be required in order for Jeremy's legal personal representatives to claim from Friends Provident International - this will take some time and cost money.
- Assuming the proceeds of **GBP 1,000,000** were to pass to the children, they are potentially subject to UK inheritance tax at 40% – a tax bill of up to **GBP 400,000**.

If the policy were instead written in a suitable trust for Jeremy's children with him having appointed additional trustees then:

- Jeremy's chosen surviving trustees would submit the original trust deed to Friends Provident International as part of proving their ownership of the policy.
- Friends Provident International will not require an Isle of Man Grant of Probate. This could speed up the payment of the proceeds significantly and save legal costs.
- The **GBP 1,000,000** would not be in Jeremy's estate for UK inheritance tax, potentially saving up **GBP 400,000** in tax.



www.fpinternational.com

Visit our website to learn more about our range of flexible savings, investment and protection plans.

Speak to your financial adviser to see how we could help you plan for your children's future.

About Friends Provident International

Friends Provident International has over 35 years of international experience and our heritage dates back over 180 years.

All currency conversions correct at time of print, October 2016.

Data Privacy

We take the responsibility of handling your personal data very seriously and we will only ask you for details required to process your requests to us. Please be aware of our privacy policy – please visit www.fpinternational.com/legal/privacy-and-cookies.jsp to view the full policy or this can be provided on request from our Data Protection Officer.

This document is for information only. It does not constitute advice or an offer to provide any product or service by Friends Provident International.

Please seek professional advice, taking into account your personal circumstances, before making investment decisions. We cannot accept liability for loss of any kind incurred as a result of reliance on the information or opinions provide in this document. Friends Provident International does not condone tax evasion and the company's products and services may not be used to evade taxes.

Copyright© 2018 Friends Provident International Limited. All rights reserved.

Friends Provident International Limited: Registered and Head Office: Royal Court, Castletown, Isle of Man, British Isles, IM9 1RA. Telephone: +44 (0)1624 821212 | Fax: +44 (0)1624 824405 | Website: www.fpinternational.com. Isle of Man incorporated company number 11494C. Authorised and regulated by the Isle of Man Financial Services Authority. Provider of life assurance and investment products. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. **Dubai branch:** PO Box 215113, Emaar Square, Building 6, Floor 5, Dubai, United Arab Emirates. Telephone: +9714 436 2800 | Fax: +9714 438 0144 | Website: www.fpinternational.ae. Registered in the United Arab Emirates with the UAE Insurance Authority as an insurance company. Registration date, 18 April 2007 (Registration No. 76). Registered with the Ministry of Economy as a foreign company to conduct life assurance and funds accumulation operations (Registration No. 2013). Friends Provident International is a registered trademark and trading name of Friends Provident International Limited.