

Whether your client's goal is to preserve long-term wealth or set up an ex-pat football team to win next week's game, making tactical decisions early prevents financial own goals.

The RL360° Split trust allows a UK domiciled LifePlan policyholder with life and critical illness cover to make a critical illness claim if needed, while keeping the life cover outside their taxable estate for UK inheritance tax (IHT) purposes.

#### How does it work?

Upon the diagnosis of a critical illness, and subject to surviving the diagnosis by 30 days, the trustees will advance the critical illness cover to the life assured for them to use as they see fit. The life cover element of LifePlan will remain in trust and will not be taken into account for IHT valuation purposes on their death.

Where the life assured does not survive the diagnosis of the critical illness by 30 days, the critical illness benefit is not paid, remains in trust, and more importantly outside of their IHT assessable estate.

#### Case study

John is a UK national employed in the petrochemical industry in Africa. In his spare time, he is a football coach for a local ex-pat football club.

One of the football team mentions to John that he has recently purchased whole of life cover and asks whether he has anything similar in place.

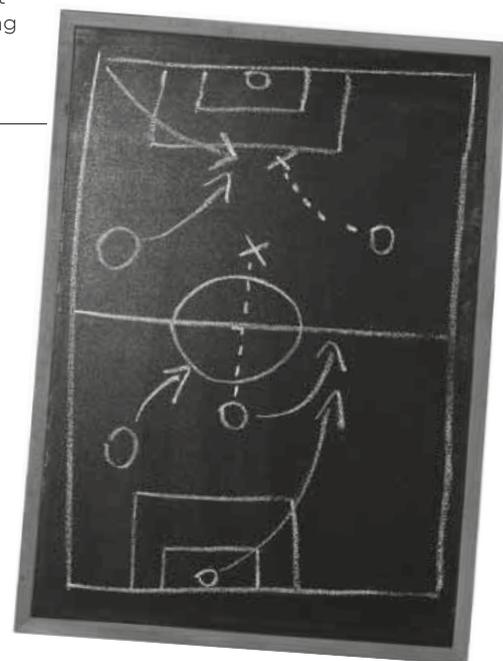
John already has basic life cover in place to cover a small mortgage on a UK investment property. However, he is concerned that should something unfortunate happen to him, both he and his family may struggle financially. He decides that having additional life cover together with critical illness benefit, is something that he wants to investigate further.

As such, John arranges to see a local financial adviser. The financial adviser points out John's financial responsibilities and what the situation would be should he become critically ill or die. After evaluating the overall position, John's adviser suggests that he should apply for RL360°'s LifePlan with additional critical illness cover.

Whilst John has no plans to return to the UK just yet, he will eventually and his adviser suggests that the policy is written in a suitable trust. The correct trust will avoid the death benefit being

assessable to IHT upon John's death, albeit that as a consequence, John will never benefit from the policy. John quite rightly queries how the critical illness cover can be of any benefit to him if he cannot have any access to it? Fortunately for John, the trust being suggested by the adviser is RL360°'s Split Trust which allows John to be given access to the critical illness benefit under the policy providing he survives the diagnosis of a Critical Illness by 30 days.

This will of course be an asset of John's estate (subject to IHT). However, by surviving 30 days it is likely that John's prognosis will allow him to be able to use and spend the amount of cover to improve his standard of living should his health be impaired. If John does not survive the diagnosis of the critical illness by 30 days, then rather than unnecessarily increasing his potential liability to IHT, the amount of cover will remain in trust and fall outside of his IHT assessable estate as per the life cover.



When the goal is how to pass on your wealth, it pays to think tactically.

John applies for LifePlan and decides that £500,000 life cover with £150,000 critical illness benefit is more than sufficient for his and his dependants' needs. Once the policy is issued, it is placed in the Split Trust.

Two years later, John suffers a heart attack. However, he survives the diagnosis by 30 days and his general prognosis looks good. John's trustees (of which he is one) pay the £150,000 critical illness cover to him to spend as he sees fit. John decides that his current lifestyle is too stressful and uses the money to enable him to take early retirement and to move back to the UK permanently.

Ten years later, John unfortunately dies. However, as the whole of life cover continued to be held in the Split Trust, it does not form part of his estate for IHT valuation purposes and his trustees are free to distribute the benefit in accordance with John's wishes, without having to wait for John's executors to file an IHT return and obtain UK and Isle of Man probate.

### **Important notes**

For financial advisers only. Not to be distributed to, nor relied on by, retail clients.

LifePlan is a product which is not available to UK residents.

Please note that every care has been taken to ensure that the information provided is correct and in accordance with our understanding of Her Majesty's Revenue and Customs' (HMRC) practice and law as at February 2017. You should note however, that we cannot take upon the role of an individual taxation adviser and independent confirmation should be obtained before acting or refraining from acting upon the information given. The law and HMRC practice are subject to change.