

Let our solution take the strain of a UK IHT liability



Ronnie is a UK national, living in Bahrain but planning on returning to the UK where he knows he is likely to have an inheritance tax (IHT) liability in the future. Comparing the cost of the RL360° Asset Protection Plan and his potential IHT liability, find out how Ronnie takes steps to make sure his family won't be weighed down with a tax bill in the event of his death.

Ronnie is a 48-year-old UK national and domicile who has been working in Bahrain for the last 10 years. He owns a property in the UK which he inherited from his mother and it has recently been valued at £528,000. The property is currently rented out but Ronnie plans to return to the UK in another 10 years' time and use it as his permanent home.

When Ronnie inherited the property he had terrible trouble obtaining probate because his mother had no liquid assets to cover her UK inheritance tax (IHT) bill. To avoid having to sell the house, Ronnie had to use a large proportion of his savings to settle his mother's IHT bill and he is adamant that he doesn't want any of his family to go through the same ordeal. Therefore, he decides to speak to his financial adviser.

His adviser discusses RL360°'s Asset Protection Plan and explains that rather than his family having to use their savings or any other assets to cover his future IHT liability, he can insure against it.

Ronnie's adviser also points out that he could elect to have advanced critical illness cover¹ whilst still ensuring that

there was sufficient life cover to settle his anticipated UK IHT liability. Ronnie, however, is concerned that any benefit paid to him or to his estate will simply increase his estate for IHT purposes rather than help to resolve it.

So how can RL360°'s Asset Protection Plan help achieve Ronnie's goals?

His adviser explains that the plan is immediately written into trust and the features of the trust are as follows:

- Where advanced critical illness is a selected benefit, it is only paid to Ronnie providing he survives the diagnosis of the illness by 30 days. The 30 day delay is to ensure that Ronnie's prognosis is positive enough for him to be able to spend the benefit rather than it simply increasing his IHT liability. If Ronnie does not survive 30 days, then the critical illness benefit is held in trust for his intended beneficiaries.
- Irrespective of whether there is critical illness cover or not, the Life Cover is always paid into the trust which means it does not become an asset of his estate.

After doing some calculations based on the current and possible future value of his estate, his adviser suggests that he could elect to have £150,000 advanced critical illness benefit and £225,000 life cover. This is because it is highly likely that property prices will rise in years to come and as a result his IHT liability will also increase.

Based upon a conservative 2.5% per year growth rate over a 10 year period, the value of his UK property alone would rise to over £675,000 resulting in an IHT liability of:

Property value:
£675,000 less

Total Nil Rate Band: £500,000*

Taxable value for IHT:
£175,000 x 40% = £70,000 IHT Bill

* combined value of: Current Nil rate band (£325,000) and Expected Residence Nil rate Band (£175,000)

The adviser prepares an illustration for the RL360° Asset Protection Plan and shows Ronnie that his annual premium for that level of cover would be £5,584.²

RL360° Asset Protection Plan

£5,584 per year x 10 years =
£55,840 total premium costs

Additional benefits in which he is covered under Critical Illness Cover:

- Terminal illness
- Repatriation benefit
- Total and Permanent Disability
- Long term care

Ronnie's increasing IHT liability is covered and any residual cash balance following Ronnie's death can be distributed to his beneficiaries by the Trustees.

Potential IHT liability in 10 years' time

Current UK property value £528,000

Increase in value at 2.5% per year for 10 years

= £675,885
– £500,000 (Nil Rate Band)
= £175,885 x 40%

= £70,354 IHT liability

If Ronnie's family were unable to pay this, they may have to sell the UK property to fund the IHT bill.

Ronnie decides to compare 10 years worth of premiums to his potential IHT liability in 10 years' time.

After seeing the figures, Ronnie decides to apply for the plan and works out that his rental income can cover the annual premium. He appoints himself and two others as Trustees. Should Ronnie become critically ill and if he survives the diagnosis by 30 days, he'll receive £150,000. If he should then die, his Trustees will receive a further £75,000 (so a total of £225,000) which will be sufficient to cover the estimated UK IHT liability with any balance being distributed to his intended beneficiaries.

If you have clients in a similar situation to Ronnie and want more information on the RL360° Asset Protection Plan, please contact your Regional Sales Office.

Important notes

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

The RL360° Asset Protection Plan is a combination of RL360°'s LifePlan and one of RL360°'s trusts. RL360° Asset Protection Plan is not available to UK residents.

Please note that every care has been taken to ensure that the information provided is current and in accordance with our understanding of current law and Her Majesty's Revenue and Customs' (HMRC) practice as at 6 April 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.

¹ only available on Single Policyholder, Single Life plans.

² based on standard underwriting rates and a 5% growth rate inclusive of all product charges