BENEFICIARY TRUST

HOW DOES IT WORK?

The RL360 Beneficiary Trust allows an individual to nominate beneficiaries to receive the proceeds of their plan after death via a trust. The Beneficiary Trust should not be used if you wish to create a gift for UK Inheritance Tax purposes.

Client submits a Beneficiary Trust deed that nominates the trustees and the beneficiaries

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Neither the trustees nor the beneficiaries have any involvement or entitlement to the plan during the plan owner's lifetime

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The plan continues in the individual's own name without any access restrictions

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Upon the death of the last surviving plan owner the trust is created

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The trustees now take control of the plan. The trustees can now transfer the plan funds or ownership to the beneficiary

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The plan can only continue if there is a surviving life assured/or where the plan was set up on the Capital Redemption version

ISSUES FOR CONSIDERATION

- The Beneficiary Trust does not come into force until the death of the last surviving plan owner
- A Beneficiary Trust can be revoked/cancelled at any time during the lifetime of the plan owner.
- Submitting a new Beneficiary Trust will revoke/cancel the current the Beneficiary Trust.
- A Deed of Assignment will revoke/cancel any Beneficiary Trust.
- It not possible to use the Beneficiary Trust where the plan is owned by a company or trust.
- A company or trust can be appointed as a Trustee or Beneficiary
- The Beneficiary Trust cannot be used where the plan is written on a joint life first death basis.
- The Beneficiary Trust avoids the requirement for obtaining Isle of Man Probate.

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Case study

Mahindra is an Indian national working in Dubai as an electrical engineer. He has a ten year old son called Vishay from a previous marriage. After discussions with his financial adviser, Mahindra has decided to invest in a Regular Savings Plan with RL360 on a capital redemption basis. His intention is to save regularly into the plan to fund Vishay's further education in the future.

Mahindra's financial adviser explains to him that, since it is registered in the Isle of Man, the plan will be classed as a Isle of Man asset and therefore Isle of Man Probate will be required in order for Mahindra's personal representatives to claim the proceeds of the plan upon his death. The adviser explains that this may cause delays in terms of the proceeds of the plan being distributed and there will also be the cost of appointing an Isle of Man based solicitor to deal with Isle of Man Probate.

For this reason the financial adviser recommends that a simple trust be wrapped around the plan and that Mahindra considers who he would like to appoint as trustees. At this point in the conversation Mahindra is uncomfortable with this aspect of the arrangement. He likes the idea of being able to switch funds free of charge as and when he sees fit and is concerned that if the plan is placed under trust, he will need to obtain the other trustees' signatures in order for any switch instructions to be effected.

This poses a problem as he would like to nominate his two brothers as trustees and they both live in India.

Mahindra's financial adviser reassures him that the trust he has in mind is a trust which will not take effect until Mahindra dies and therefore only Mahindra's signature will be required in order for RL360 to be able to action his fund switches.

Mahindra feels the Beneficiary Trust is suitable for his needs and therefore completes the Settlement Deed along with the Regular Savings Plan application. He appoints his brothers as trustees of the plan and his son Vishay as the sole beneficiary.

Mahindra is reassured that should he die before his son has completed his further education, that the trustees will be able to use the proceeds of the Regular Savings Plan for his intended purpose without incurring any additional costs or delays in obtaining Isle of Man Probate. If Vishay is aged 18 or more at the time of his father's death, the trustees can chose to pay all the plan proceeds to him to use as he sees fit or they can remain within the trust to be distributed as and when required by the trustees.

As the plan is written on a capital redemption basis, it can continue until it reaches maturity or is surrendered. If the plan is subsequently surrendered in trust, there may be an income tax liability on the trustees if they are UK resident or on any UK resident beneficiaries where the trustees are non UK resident.

IMPORTANT NOTES

The information contained in this document is based on our current understanding of the law and HM Revenue and Customs (HMRC) practice as at April 2023. RL360 does not provide tax or legal advice. Anyone using this document or relying on the information contained within it, should ensure that they are appropriately advised before they decide to use it or not. RL360 cannot be held responsible for any unintended consequences as a result of using this document or the information contained within it.

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