Client guide to Relevant Life plan and Trust

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About this document

Relevant Life Plans are a tax-efficient way of providing death-in-service benefits on an individual basis to company directors and other company employees, no matter how small the business is. This guide is to help you understand the benefits of VitalityLife's Relevant Life Plan and Trust and to explain the key issues as simply as possible.

Changes to Tax Law

The notes in this Client Guide are based on VitalityLife's understanding of the law and HM Revenue & Custom's practice. We have made every effort to ensure it is accurate but accept no responsibility for our interpretation of the law, future changes in the law or for any loss you or anyone else suffer if you act based on any information we've given.

1. What is a relevant life plan?

A Relevant Life Plan (RLP) is a life assurance plan which satisfies certain conditions set down in legislation and in return benefits from a tax-favoured treatment of premiums and benefits. Premiums paid to a qualifying RLP will be tax deductible for the Employer and will not be assessable on the Employee. The sum assured when paid will not be subject to income tax nor will it be included in the taxable estate of the Employee for inheritance tax (IHT). This means that it can represent an excellent way of providing life assurance cover for Employees and directors payable to their family and dependants on death or terminal illness.

To ensure that the desired tax treatment is secured the plan must be effected subject to the special RLP trust. The trust terms provide that the benefits could be paid to any one or more of a wide class of Beneficiaries including the insured Employee's family and dependants. The Employee would have the opportunity to indicate to the Trustees who they would like to benefit.

An RLP is only available to Employers (whether trading through a partnership, a limited liability partnership ("LLP"), a limited company or as a sole trader) who are applying for a new plan on the life of an employee of theirs. The term "Employee" includes a director and an officer of a company but does not include a partner in a partnership, a member of an LLP or the sole trader.

Apart from the tax benefits which apply to an RLP issued subject to an RLP Trust, when a life assurance plan is held in trust there are additional practical benefits. Namely, when a plan is held in trust, any death benefit can be paid to the Trustees simply on production of the death certificate and proof of ownership, without the need for probate (confirmation in Scotland). This means that VitalityLife will be able to make the payment much quicker than if there were no trust.

When the plan is made subject to an RLP Trust, the ownership of the plan is effectively, between the legal owners and the beneficial owners. The legal owners of the plan will be the Trustees. The Trustees collectively control all dealings with the plan on behalf of the Beneficiaries under the trust. In this respect they are like a custodian. In practice, the Beneficiaries under the RLP trust will only receive any benefit following the death or terminal illness of the insured Employee when the sum assured under the plan is paid.

The Employer will be the initial Trustee. The Trustees decide who (from the classes of Beneficiary specified in the trust) should benefit from the trust fund (ie. the proceeds) and when.

The main objective of the RLP Trust is to provide a tax free death or terminal illness benefit payable without delay for the benefit of the intended Beneficiaries and outside the Employee's taxable estate, whilst securing tax relief in respect of the premium payments for the Employer.

2. When should an employer consider effecting a relevant life plan?

An Employer should consider effecting a RLP if they:

- Wish to provide tax-efficient benefits on the death in service of one or more Employees, but do not wish to set up a group arrangement for all their Employees or only wish to provide benefits to individual Employees;
- Wish to secure tax relief on the premium payments;
- Wish to ensure that the proceeds are available to the intended beneficiaries without delay following the death or terminal illness of the Employee;

and

- Wish there to be, within permitted categories, flexibility over the choice of the ultimate beneficiaries ie. the persons who will receive the benefits under the trust.

3. When should the relevant life plan and trust not be used?

The RLP and trust should not be used if:

- It is intended to provide benefits beyond age 75 and beyond the period of employment;
- It is intended to provide benefits other than just death, and terminal illness benefits;
- The life assured is not an Employee (or a director or an officer of the Employer company);
- The applicant is not an Employer of the life assured;
- The plan is being effected by a company for its own benefit (ie. keyperson cover);
- The plan is being effected for any reason other than to provide the benefits as described above.

4. How do you establish the relevant life plan and trust?

Relevant Life Plans can only be effected by Employers for their Employees. The application form therefore must be completed by the Employer. The Employer can be a limited company, partnership, LLP or a sole trader.

The trust is established when the Employer completes the RLP trust deed. The trust documentation must be completed at the same time as the application, ie. before the plan is issued. You can ONLY use the RLP Trust with a new plan. In the trust deed the Employer declares that the plan will be held subject to the trust provisions contained in the trust declaration.

The original Employer will be the initial Trustee and it is recommended that Additional Trustees are appointed.

Once the plan is made subject to trust, any subsequent dealings with the plan will be between the Trustees (as the legal owners) and VitalityLife.

5. Key provisions of the relevant life plan trust

During the trust period (up to 125 years in England and Wales and in Scotland and 80 years in Northern Ireland) the Trustees may appoint the trust benefits (capital or income) to any of the Beneficiaries. These Beneficiaries include:

- The Life Assured ie. the Employee. In practice an appointment to the Life Assured would only be made in respect of terminal illness benefits
- The Employee's spouse (or civil partner)
- The Employee's children and grandchildren
- The Employee's brothers and sisters and their children and grandchildren
- Any individual or charity nominated by the Employee at any time to the Trustees in writing. This means that the Employee can add other individuals or charities to the list of Beneficiaries.

The Employee could (and should be encouraged to) leave an indication of wishes as to which of the Beneficiaries they would like to benefit under the trust after their death. This would not be binding on the Trustees but they would take it into account in deciding when and who to pay benefits to. VitalityLife provides a draft form for this purpose.

- As the trust is a discretionary trust, no Beneficiary is entitled to anything until the Trustees make an appointment in their favour.
- The Employer cannot benefit from the trust in any circumstances.
- The Employer completing the trust documentation can name the individual or individuals who are to benefit from the trust fund. *This should be done at the direction of the Employee*.
- The Trustees have wide powers to invest and deal with trust property where the proceeds are not to be distributed immediately for the benefit of Beneficiaries, for example if the intended Beneficiaries are minor children at the time of the Employee's death.

6. The law of the trust

The draft trust offers a choice of applicable law depending on where the Employer's place of business is situated – this can be the law of England and Wales, law of Scotland or the law of Northern Ireland. The beneficial provisions of the trust as well as the tax implications of the trust are the same in all the parts of the UK.

7. The trustees

The original Employer is automatically the initial Trustee. It is expected that they will remain a trustee at least as long as the Employee is in their employment, the plan is in force and they pay the premiums. This should also simplify any claim process.

It is recommended that Additional Trustees are appointed. Anyone over 18 years old and of sound mind can be a Trustee. It may be desirable to appoint members of the Employee's family as additional Trustees. A professional person, such as solicitor, can be appointed but bear in mind that they are likely to charge fees for their services.

There are three occasions on which the original Employer may be removed as a Trustee.

i. After the benefit under the plan has been paid to the Trustees then, provided there are at least two individuals or a trust corporation acting as Trustees in addition to the Employer, the Employer may be dismissed from his office as Trustee by the remaining Trustees. This provision is included because it is thought that in most cases it would be preferable for the trust fund to be controlled by family members after the Employee's death and the death benefits have been paid to the Trustees.

ii. If the Employee leaves the employment of the current Employer and joins another employment and the plan is to continue as a RLP with the new employer paying premiums, then the Employee may wish to appoint the new Employer as a Trustee. In these circumstances, provided there are at least two individuals or a Trust Corporation acting as Trustees in addition to the former Employer, the former Employer may be dismissed from this office as Trustee by the remaining Trustees and the new Employer appointed.

iii. Where the Employee leaves the employment of the current Employer, and although the plan is to continue, it will not continue as a RLP e.g. because the former Employee will pay the premiums. In these circumstances, provided there are at least two individuals or a Trust Corporation acting as Trustees in addition to the former Employer, the former Employer may be dismissed from his office as Trustee by the remaining Trustees and, if appropriate, other personal trustees appointed.

In England, Wales and Northern Ireland the Trustees must act unanimously. If the trust is governed by Scots law, the Trustees can act by a simple majority.

8. The tax implications of the relevant life plan

For the Employer

- Premiums paid by the Employer will generally be treated as a business expense for tax purposes.
- Premiums do not give rise to any Employer liability to National Insurance contributions.

For the Employee

- Premiums paid by the Employer are not treated as a benefit in kind for the Employee (life assured).
- The premiums do not need to be taken into account in determining the Employee's annual allowance for pension purposes ie. the amount that can be contributed by or on behalf of (or accrued for the benefit of) an Employee to any registered pension scheme with the benefit of tax relief.
- Premiums are not assessable on the Employee for National Insurance contributions purposes.
- The sum assured is paid free of income tax.
- The death benefit is payable through a discretionary trust so it will not form part of the Employee's taxable estate for inheritance tax (IHT). Depending on the circumstances though, there may be a charge to IHT when a payment is made from the RLP trust to Beneficiaries – see below for more details.

9. Other tax implications of the relevant life plan trust

Inheritance tax

Setting up the trust and making premium payments

The creation of the trust will not give rise to a transfer of value for IHT purposes.

The premiums paid by the Employer will not give rise to any IHT consequences.

IHT implications whilst the trust is in existence

As the RLP trust is a discretionary trust, this means that special IHT charging rules apply.

Under these rules there may be potential IHT charges:

- On every ten year anniversary of the trust - "the periodic charge"

or

- Whenever property leaves the trust (e.g. when capital is advanced to a Beneficiary) - "the exit charge"

Whether a periodic or exit charge will arise depends on the circumstances:

i. **Before the death of the Employee**

   There will normally be no IHT implications whilst the Employee is alive and the only trust asset is the plan which will usually have no value (unless the employee is in serious ill health).

ii. **Death or terminal illness of the Employee**

   This will result in the payment of the benefit to the Trustees. This will have no IHT implications. The Trustees will decide which of the Beneficiaries should receive the payment.

iii. **After the death or terminal illness of the Employee**

   Following the death or terminal illness of the Employee the trustees will receive the death or terminal illness benefit which will become "trust property".

Because the trust is a discretionary trust, it will be subject to the relevant property regime. This requires a consideration of the possible IHT implications at the 10 year anniversary dates (periodic charge) and when cash is paid out of the trust (exit charge). For the purposes of calculating any of these IHT charges, the trust is treated as if it was created by the Employee when the arrangement was established.

Any chargeable lifetime transfers that they made in the seven years before they joined the arrangement are therefore relevant to the tax calculations.

In broad terms the IHT charge will be as follows:

The 10-year periodic charge

A periodic charge will arise at the 10 year anniversary if the value of the trust property (ie. the plan) when added to the chargeable lifetime transfers made by the Employee in the seven years before the plan was effected exceeds the available nil rate band (currently, £325,000). Under current tax rules, the trust will have its own nil rate band for this purpose. Of course, the value of the Policy will be negligible unless the life assured is in ill health.

Based on current rules, the maximum liability will be 6% of the value of the trust property in excess of the trust's nil rate band at the 10-year anniversary but, frequently, it will be much less or even nil.

Exit charge in the first 10 years

Normally there will be no exit charge in the first 10 years of the Trust's existence.

Exit charge after the first 10 years

Because exit charges between the 10 year anniversaries are calculated by reference to any tax charge at the last 10 year anniversary, then as long as there was no tax at the last 10 year anniversary there will be no potential tax charges on any payments out of the trust before the next 10 year anniversary.

If it is likely that the circumstances of a particular case may result in a potential tax liability, the trustees should ask their adviser to explain the full tax implications and whether any periodic or exit charges are likely to arise in the circumstances.

Income tax

In relation to the Relevant Life Plan

There will be no income tax charge in relation to any aspect of the RLP.

Payments to Beneficiaries

- No payments will be made by the Trustees to any Beneficiary until the plan pays out on the death or terminal illness of the Employee.
- As long as payments to Beneficiaries are made and documented as advancements of capital or loans and do not acquire the character of income, there should be no income tax implications for the Trustees or the Beneficiaries.
- No other UK taxes are relevant to the RLP Trust as long as the only trust asset is a VitalityLife RLP. If the sum assured under the RLP is paid to the Trustees and they subsequently invest the cash in other assets there may be income tax and, possibly, capital gains tax implications to consider. The Trustees should obtain suitable advice before making an investment and take the tax implications of the relevant investments into consideration at that time.

10. What happens if the employee leaves the employment of the original employer?

(1) Corporate Continuation Option

If the Employee leaves the employment of the Original Employer, the plan will not automatically terminate. If the Employee takes up employment with another Employer who wishes to continue to make premium payments, the plan will continue as a Relevant Life Plan. At that point, the new Employer can be appointed as a Trustee (see earlier).

(2) Personal Continuation Option

If the Employee leaves and either:

- Doesn't take up new employment or
- Takes up new employment but the new Employer does not want to continue to pay premiums,

the Life Assured can continue to pay premiums to a plan providing personal (ie non-RLP) cover.

In these circumstances, the Trustees (Employer and Additional Trustees) will appoint and assign ownership of the Plan to the Life Assured. The RLP Trust will end.

From this point on, as the Life Assured will be paying premiums the payment of premiums to and the payment of benefits under the plan will not attract any beneficial RLP treatment.

The Life Assured can set up a personal protection (discretionary or absolute), trust if required, at any time.

Alternatively, if the Employee leaves and wishes to retain their Life Cover and add other covers such as Serious Illness Cover, the Life Assured can lapse their Relevant Life Plan and take out a new plan providing personal cover for the remainder of the original term and the same amount of cover without any further medical evidence. If the Life Assured adds other benefits or changes the amount or term of the Life Cover VitalityLife may require further medical evidence.

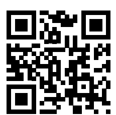
The Plan gives your employees access to a range of discounts and incentives, via The Vitality Programme, to encourage them to look after their health.

Every year, we help you track what your employees have done to look after their health. Then, depending on how much effort they've made, they'll achieve a Vitality Status of Bronze, Silver, Gold, or Platinum. Their status will affect what rewards and discounts are available to them.

You can chose to enhance the plan by adding either Vitality Plus or Vitality Select. Both options give your employees access to an additional range of rewards and discounts to help keep them motivated; from discounted monthly gym fees to money off travel and hotels.

Optimiser changes the way the protection premiums for our plans work and means that you, the plan owner, can also benefit. It makes the initial cost of the cover more manageable by giving you an upfront discount on the protection premium – depending on the age of the person covered and cover term. As the person covered by the plan takes steps to improve their health it gives you the opportunity to keep the premiums low after the first year – or to reduce them even further. The person covered by the plan also gets access to an additional range of rewards and discounts to keep them motivated.

Optimiser available for £4.75 a month when your premium is above the prescribed threshold. A gym joining fee, minimum monthly protection premiums and further terms and conditions apply.



Find out more.

For more information, please visit vitality.co.uk/life

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