Relevant Life Policy Trust Deed

The Relevant Life Policy Trust is provided in draft format for the approval of your (the employer's) legal advisers. The appropriateness of this trust will depend on the circumstances of each case. It is essential that you seek legal advice before proceeding with the trust.

What is it?

A discretionary trust for use by an employer effecting a Relevant Life Policy with Zurich. See below for an explanation of what a Relevant Life Policy is. It can only be used by employers (whether trading through a partnership, a limited liability partnership ('LLP'), a limited company or a sole trader) who are applying for a new policy on the life of their employee (called the member). The term "employee" includes a director of a company but does not include a partner in a partnership, a member of an LLP or a sole trader.

Aims of the trust

To ensure that the payment of the death benefit following the death of the member can be made to the trustees who then decide which of the individuals specified in the trust should receive the benefit. The member can make a non-binding nomination of their preferred beneficiary.

To enable the employer to pay premiums to the policy which are not taxed on the member.

To ensure that, if the benefits of the policy are paid on the death of the member, they are paid into the trust without the need to wait for a grant of probate/letters of administration to the member's estate thus making funds available to the beneficiaries without undue delay and free of inheritance tax. Payment of any benefits following terminal illness will be made to the trustees on acceptance of the claim.

As the member is a potential beneficiary any terminal illness benefit paid under the policy can be paid to him/her.

When should this trust not be used?

- If the applicant is not an employer and/or the life assured is not an employee.
- If the policy being effected is not a Relevant Life Policy.
- If the policy proceeds are for the company's own benefit (ie. key person cover).
- If the policy is being effected for any reason other than to provide the benefits as described above.
- If the policy is already in force.

How does it work?

Legislation allows employers to provide tax free benefits to employees in certain circumstances provided certain conditions are satisfied. One such benefit is a death-in-service benefit under a Relevant Life Policy. Full details of this are provided in the Relevant Life Policy Technical Guide for Employers and Employees provided separately.

To secure the desired favourable tax treatment of the policy it is necessary that the policy is issued subject to the Relevant Life Policy Trust. A trust is a legal method of holding a life assurance policy for the benefit of the person or persons (called the 'beneficiaries') you wish to benefit under the policy. A policy made subject to the Relevant Life Policy Trust belongs, legally, to the trustees. The employer is automatically the initial trustee and can appoint other individuals to act as trustees with it.

Under the Relevant Life Policy Trust, the trustees have power to appoint the benefits to any of the people specified in the trust, mainly the family and dependants of the member. If an irrevocable appointment is not made at the end of the trust period (125 years) the policy benefits will be held for the absolute benefit of the default beneficiary or beneficiaries identified in box 'B' and, if there is more than one such beneficiary, in the shares specified. In practice, of course, the trustees will be expected to make an appointment of benefits as soon as possible after they receive the proceeds of the policy, but it is necessary to name the default beneficiaries to ensure the legal validity of the trust.

How is the trust set up?

Completion of the form is very straightforward but it depends on the status of the employer, ie. whether a limited company, LLP, partnership or a sole trader – see the notes below about boxes 'A', 'B' and 'C'.

The Relevant Life Policy number should be inserted at the top of the trust form. The employer effecting the policy is called the principal employer. Their full name and registered address (for a company or LLP) or principal place of business (for a partnership/sole trader) must be written in the space provided (as the 'principal employer'). The full name and address of the employee who is the life assured under the policy must also be inserted (as the "member").

Box 'A' – potential beneficiaries

In paragraph (j) the names or class of any other individuals who should be included as potential beneficiaries but are not covered under (a) to (h) should be inserted.

Box 'B' – default beneficiaries

Here the individuals who are members of the family or household of the member or a charity who will benefit at the end of the trust period (125 years) if no earlier appointment is made should be named. Please ensure that the shares add up to 100%. **At least one person must be named here**.

In the boxes underneath the box marked 'B', an authorised signatory of the principal employer should sign and date the deed and their signature must be witnessed by an individual who is neither a trustee nor a beneficiary under the trust. The signatory(ies) should be the same person/persons who are making the application for the policy.

If the employer is a company or an LLP it is usual for two officers of the company/LLP to sign documents on its behalf. If the employer is a partnership, given that a partnership is not a legal person under English law, the application and the trust would normally be signed by one or two partners acting on behalf of the firm.

Box 'C'

The full name and address of each additional trustee should be inserted here and each trustee should sign in the box. Up to four additional trustees can be appointed in the boxes provided. The principal employer is automatically a trustee of the trust and so they should not be included in this box.

Frequently asked questions

What is a Relevant Life Policy?

It is a life assurance policy which, if it satisfies certain conditions set down in legislation, benefits from favoured tax treatment – see later for further details on this. The questions and answers in this section relate mainly to the trust itself. There is a separate Technical Guide for Employers and Employees provided by Zurich which explains the Relevant Life Policy in more detail.

Why is a trust necessary when taking out a Relevant Life Policy?

It is one of the conditions set down in the legislation that the death benefit must be paid to or for the benefit of individuals or charities and a trust suits this purpose best.

Does the employer have to be a trustee?

The employer is automatically a trustee and it is expected that they will remain a trustee at least as long as the policy is in force and they pay the premiums. This should also simplify any claim process. However, there is no requirement that they must remain a trustee.

Who should be the additional trustees?

There is no rule on this. Anybody over 18 years of age and of sound mind can be a trustee. Usually this would be one or two members of the family of the employee.

Can a trustee be removed?

This trust does not allow the employer to remove a trustee, although a trustee can retire of his own free will. However, the trustees may remove a trustee who is missing and cannot be found. In addition, if the member's employment ceases, the remaining trustees can remove the former employer from his office as trustee.

Can the trust provisions be changed once the trust has been set up?

No. The trust is irrevocable and generally any changes can only be made with the agreement of the court. Remember that this trust is effected specifically for the purpose of dealing with a death in service benefit.

Can anybody be a beneficiary under the trust?

Legislation states that the beneficiaries must be restricted to individuals and charities. There is a list of potential beneficiaries specified in the trust. The member can add other people who are members of his family or household as beneficiaries in the future by notifying the trustees in writing. If the member is an owner of a business or owns shares in a family company, any co-owners should not be included as beneficiaries under this trust unless they are also members of the family or household of the member.

What happens to any terminal illness benefits that are paid?

These would normally be paid to the member as a potential beneficiary under the trust.

Can the member decide who should receive the death benefit?

The member can complete a non-binding nomination form and the trustees will take account of this. Generally speaking, unless the trustees find a compelling reason not to follow the wishes of the member, they will pay the benefit to the nominated beneficiary.

How soon after the member's death do the trustees have to distribute the policy proceeds?

There is no time limit as such and the trust can continue for up to 125 years which is the legal limit on how long any trust can last. However, the trustees will be failing in their duty to the beneficiaries if they do not use the funds to provide for the beneficiaries soon after receiving them.

Is a separate trustee bank account needed?

As Zurich will make any payment to all the trustees you should consider setting up a trustee bank account before the proceeds are paid.

Can the policy continue if employment ceases?

Yes. If the member has a new employment, premium payments can be taken over by the new employer – see next question. If, on the other hand, ongoing premiums are to be paid by the member, the member should first remove himself as a beneficiary under the trust by completing a disclaimer form (a draft disclaimer form is available from Zurich). This is needed to avoid an inheritance tax gift with reservation of benefit problem. To ensure the current legislation is met, terminal illness benefit will cease on the policy if the member takes over the premiums.

What happens if the member changes jobs?

The policy is fully portable. This means that the new employer can take over the payment of the premiums under the policy. It is expected that the new employer will become a trustee of the Relevant Life Policy Trust. The new employer should contact Zurich at that time to set up the necessary formalities.

Tax implications of the Relevant Life Policy Trust

Taxation is a complex subject. These notes are not comprehensive and are intended only to give a broad outline of our understanding of the tax position as at 1 July 2018.

Inheritance tax

What are the inheritance tax (IHT) consequences of setting up the trust and for the making of premium payments?

The creation of the trust will not give rise to a transfer of value for IHT purposes. It is also not intended that any additional gifts are made to the trust by anybody adding to the trust fund during the existence of the trust, as this could have adverse IHT consequences. The premiums paid by the employer will not give rise to any IHT consequences.

What are the IHT implications whilst the trust is in existence?

The IHT implications of the policy/trust need to be considered in different circumstances:

(i) Before the death of the member.
There will normally be no IHT implications whilst the member is alive and the only trust asset is the policy which will usually have no value (unless the member is in serious ill health).

(ii) Death or terminal illness of the member.
This will result in the payment of the benefits under the policy to the trustees. This will have no IHT implications.

(iii) After the death of the member.
The following assumes that after the death of the member, the trustees receive the death benefit which becomes “trust property”. Because the trust is a discretionary trust, it will be subject to the relevant property regime. This requires a consideration of possible IHT implications at the 10-year anniversaries (periodic charge) and when cash is paid out of the trust to a beneficiary (exit charge). For the purposes of calculating any of these IHT charges, the trust is treated as if it was created by the member when the trust was established. The chargeable transfers that the member made in the 7 years before they joined the arrangement are therefore relevant to the tax calculations.

In cases where the member has taken over premium payments (because they have left employment) the above comments assume that they have disclaimed their interest under the trust in order to avoid a reservation of benefit.

The 10-year periodic charge

A periodic charge will arise at the 10-year anniversary if the value of the trust property (i.e. the policy) when added to the chargeable transfers made by the member in the seven years before the policy was effected cause the then available nil rate band (£325,000 in the tax year 2018/19) to be exceeded. The trust will have its own nil rate band for this purpose. It should be borne in mind that the value of the policy will be negligible unless the life assured is in ill health. In a case where the member has not made any chargeable lifetime transfers in the seven years before the policy is established, the maximum liability will be 6% of the value of the trust property in excess of the 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

There will be no exit charges 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 previous 10-year anniversary, then as long as there was no tax at the previous 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 your case may result in a potential liability to tax the trustees should ask their adviser to explain the full tax implications and whether any periodic or exit charges are likely to arise in your circumstances.

Income tax

While the only trust asset is a life assurance policy there will be no trust income and no income tax implications. If the policy proceeds are not paid out by the trustees immediately but invested, then any income produced (interest or dividends) would be assessed on the trustees. Trustees should obtain advice on trust taxation should this become relevant.

Capital gains tax

As long as the Relevant Life Policy Trust is effected at the same time as the policy and not later, there should be no capital gains tax implications. If trust funds are not paid out immediately by the trustees, but invested, then the trustees should take professional advice in connection with any capital gains realised by the trustees.

Important note

This trust is provided in draft form for consideration by your legal advisers. They are responsible for ensuring that the trust takes into account your individual circumstances and requirements and the terms of any documents and agreements relating to your business.

Creating a trust is an important matter and has lasting legal and tax consequences. Therefore, the trust should not be completed unless your advisers have confirmed that it is appropriate to your circumstances and objectives.

These notes are for your general information only and cannot cover every situation. The trust, once created, is irrevocable and the policy and its benefits must be held according to the terms of the trust. The trustees will be in control of the operation of the trust so they may need to set up a trustee bank account.

Any options that are available under the policy and any further policies that are issued as a result of the exercise of any options will also be held subject to the trust.

The draft trust and these notes are based on our understanding of current law and Her Majesty's Revenue & Customs' practice (1 July 2018). Although every care has been taken in the preparation of these notes and the draft trust, neither Zurich Assurance Ltd nor any of its officers, employees or agents accept responsibility for the operation of the trust which must be referred to your own legal advisers to ensure it meets your requirements.

This page forms part of the Trust Deed and must be submitted to Zurich.

Relevant Life Policy Trust Deed

- Only for use by employers effecting a Zurich Relevant Life Policy. Not to be used with any other policies.
- Not to be used with policies that are already in force when this Trust Deed is signed.

Policy number

Person declaring this trust: The Principal Employer (Full name in block capitals please. The employer's name should match the details provided on the application):

(the 'Principal Employer')

Registered address or principal place of business of the Principal Employer:

The Member (Life assured's full name and address in block capitals please):

(the 'Member')

Type of business

☐ Limited company (Ltd) ☐ Partnership (traditional) ☐ Limited liability partnership (LLP)

☐ Sole trader ☐ Charity

The terms of the trust are set out below

A. Potential Beneficiaries – Box 'A'

(a) the Member

(b) any spouse, widow or widower of the Member

(c) the children and remoter issue of the Member whenever born

(d) every spouse former spouse widow or widower of any such child or remoter issue

(e) the brothers and sisters of the Member and their issue

(f) any one or more persons who are members of the family or household of the Member and who are beneficially entitled under the will (or any codicil thereto) of the Member or who would be entitled to an interest in the Member's estate if the Member had died intestate

(g) any individual who is part of the Member's family or household and whose name is given in writing to the Trustees by the Member as a Potential Beneficiary

(h) the Default Beneficiaries (as hereinafter defined)

(i) any charity

(j) Please insert the names or class of any other individuals who should be included as Potential Beneficiaries but are not covered under (a) to (h)

B. Default Beneficiaries – Box 'B'

(this section must be completed and the percentages must add up to exactly 100%)

Full name (BLOCK CAPITALS)	Share %	Full name (BLOCK CAPITALS)	Share %	Full name (BLOCK CAPITALS)	Share %

To create the trust an authorized signatory/ies of the Principal Employer need(s) to sign here. Their signature(s) must be witnessed.

(see 'How is the trust set up?' on page 2)

Signed and delivered as a Deed on behalf of the Principal Employer by:

Name

Signature

Date D D M M Y Y Y Y

In the presence of:

Full name of witness

Signature of witness

Address of witness

Signed and delivered as a Deed on behalf of the Principal Employer by:	In the presence of:
Name	Full name of witness
Signature	Signature of witness
Date D D M M Y Y Y Y	Address of witness

C. Additional Trustees – Box 'C'

We do not recommend more than four additional trustees. However, if there are more than four, please provide their details and signatures on a sheet of paper marked with the Policy number, and sign it.

Title Surname	Title Surname
Full forenames	Full forenames
Address	Address
Postcode	Postcode
Date of birth D D M M Y Y Y Y	Date of birth D D M M Y Y Y Y
Signature in acceptance of appointment as Trustee	Signature in acceptance of appointment as Trustee

Title Surname	Title Surname
Full forenames	Full forenames
Address	Address
Postcode	Postcode
Date of birth D D M M Y Y Y Y	Date of birth D D M M Y Y Y Y
Signature in acceptance of appointment as Trustee	Signature in acceptance of appointment as Trustee

Trust provisions

1. Definitions

'**Beneficiary**' and '**Beneficiaries**' means any Default or Potential Beneficiary.

'**Company**' means Zurich Assurance Ltd.

'**Default Beneficiary**' and '**Default Beneficiaries**' means the person(s) named as Default Beneficiaries in Box 'B'.

'**Employer**' means the Principal Employer and any other firm or company to whom the business of the Principal Employer is transferred and which continues to employ the Member including any business to whom the Member is seconded by the Employer. "Employer" includes any firm or company employing the Member and paying premiums in respect of the Policy. Provided that there shall only be one Employer at any one time.

'**Policy**' means the policy of assurance identified above and any other life assurance policy included in the Trust Fund. It also includes any other policies set up in the exercise of rights under that policy and any property derived from that policy.

'**Potential Beneficiary**' and '**Potential Beneficiaries**' means the person(s) described in Box 'A'.

'**Relevant Life Policy**' has the meaning given in section 393B(4) of the Income Tax (Earnings and Pensions) Act 2003.

'**Respective Share**' means, in respect of each of the Default Beneficiaries in Box 'B', the share specified therein.

'**Spouse**' includes Civil Partner within the meaning of section 1 Civil Partnership Act 2004.

'**Trustees**' means the Principal Employer or the Trustees for the time being of this trust and the additional trustee(s) named in Box 'C'.

'**Trust Fund**' means

a) the Policy

b) any policies of assurance that are held by the Trustees subject to this trust

c) any policies effected in accordance with any option in any policy subject to this trust

d) all monies, investments and property paid to or transferred to the Trustees as additions to the Trust Fund

e) any property representing the above.

'**Trust Period**' means the period of 125 years from the trust's commencement which is also the Appointment Period under the trust.

'**Widow**' and '**Widower**' include a surviving Civil Partner within the meaning of section 1 Civil Partnership Act 2004.

Unless the context indicates otherwise, words in the singular will be deemed to include the plural and the masculine to include the feminine and vice versa.

2. Creation of the Trust

1) The Principal Employer has determined to provide a death-in-service benefit for the Member by means of a Policy which is a Relevant Life Policy.

2) The Principal Employer states that, in submitting the application for the above numbered Policy to the Company, it is acting with the intention of making itself the Trustee for the Beneficiaries referred to above upon the trusts and subject to the powers set out below. The Principal Employer directs the Company to issue the above-numbered Policy to it and the Additional Trustees specified above as Trustees to hold on the terms of the trust and requests that the Policy should be endorsed to this effect.

3) The Principal Employer hereby covenants that the premiums in respect of the Policy will be paid by the Employer as long as the Member remains employed by the Employer.

4) The Principal Employer confirms that the Policy has not been applied for with the main purpose of avoiding the payment of tax.

5) The trust will commence on the date the above-numbered Policy comes into force.

6) The Trustees will assume the rights and obligations under the Terms and Conditions of the Policy as policyholder.

3. Beneficiaries

1) The Trustees shall hold the capital and income of the Trust Fund upon the trusts and with and subject to the powers and provisions set out below for whoever the 'Appointor' (as defined in 4(1) below) in his absolute discretion and during the Trust Period chooses from amongst the persons named in Box 'A' on such terms as the Appointor thinks fit and in the shares and subject to such terms, trusts, powers, restrictions, limitations and conditions as the Appointor appoints. The conditions for 'appointments' are set out in 4(2) below.

2) Subject as above and in default of and in the absence of any appointment during the Trust Period under 3(1) above the Trustees shall hold the Trust Fund on trust for the Default Beneficiaries in their Respective Shares absolutely.

4. Power of Appointment

1) The Appointor is the Trustees. If the appointment is in favour of an individual who is also a Trustee then, to make the appointment, there must be at least one other Trustee who does not benefit directly or indirectly from the appointment being made.

2) Appointments have to be made by deed. The Appointor can make them irrevocable, but otherwise they can be changed during the Appointment Period. If the terms of any revocable appointment have not been revoked at the end of the Appointment Period, the appointment will become irrevocable at that time. Appointments can be subject to conditions and give powers and discretions.

3) Notwithstanding 3(1) and 4(2) above no appointment shall be made if it could result in the Policy losing its status as a Relevant Life Policy.

5. Appointment and Removal of Trustees

1) The Employer who is also the initial Trustee has the power to appoint new Trustees. If the Employer is not a Trustee the Trustees for the time being may appoint new Trustees.

2) The majority of the Trustees have the power by deed to dismiss any Trustee who has ceased to be the Employer of the Member.

3) As long as there are at least two other Trustees, if a Trustee cannot be found, after reasonable efforts have been made to find him, the remaining Trustees can discharge the missing Trustee. It is up to the remaining Trustees to decide whether reasonable efforts have been made to find the missing Trustee and no other person shall be under any duty to ensure that it was proper for the Trustees to have exercised their power to discharge the missing Trustee.

6. Powers and Rights under the Policy

1) The Employer who is also the initial Trustee can exercise any rights or powers under the Policy except where 7(2) below states specifically that the Trustees have the relevant power. However, the Employer must exercise these powers under the Policy in his capacity as, and subject to the duties of, a Trustee.

2) The Employer's powers under 6(1) above ends if he ceases to be a Trustee, or releases those powers by deed.

7. General Powers

1) The Trustees have all powers conferred by the law. In addition they have the powers in 7(2) below. The Company cannot be held accountable for, and is under no duty to investigate, the exercise of any of their powers by the Trustees, or how they apply any part of the Trust Fund.

2) The Trustees can:

a) borrow for the purposes of the trust on whatever terms they think appropriate. They can use the Policy as security;

b) make the Policy paid-up even if the sum assured is reduced as a result;

c) subject to 8(1) below exercise rights under the Policy which can reduce the benefits payable under it or, with the Company's consent, reduce the sum assured or premiums payable under the Policy;

d) subject to 8 below release any powers or discretions which can be exercised by the Trustees (including this power). The Trustees can do this wholly or partly and impose whatever conditions they think are appropriate;

e) invest the Trust Fund as though they owned it beneficially and absolutely. The Trustees can invest in income producing or non-income producing assets (including life assurance policies);

f) subject to 8(2) below lend to any Beneficiary on whatever terms about interest and repayment as they think fit. To avoid any doubt, it is made clear that this includes the power to make interest-free loans;

g) delegate the exercise of any of their investment or management powers, in relation to the Trust Fund, to any person they think fit, even if that person is resident or situated abroad. The Trustees can transfer the ownership of any property in the Trust Fund for these purposes;

h) pay or transfer any capital or income to be paid transferred to or applied for the benefit of a Beneficiary who is under a legal disability to any person on behalf of that Beneficiary as they think fit and the receipt of that person shall be a valid discharge to the Trustees. The Trustees do not have any duty to ensure that the payment is paid to, or applied for the benefit of, the relevant Beneficiary.

i) subject to 8(1) below advance all of a Beneficiary's prospective share of capital.

8. Limiting Exercise of Powers

1) If the Employer is a Trustee, the powers in 7(2)(c), (d) and (i) can only be exercised with the Employer's agreement.

2) Unless the Trustee is a trust corporation the powers in 7(2)(d) and (f) can only be exercised if there are at least two Trustees.

9. Administration of Trust outside the UK

All or part of the administration of this trust can be transferred outside the United Kingdom and persons resident outside the United Kingdom can be Trustees.

10. Charging by Trustees

Any Trustee who is in a profession, business or trade can charge his usual fees and charges for work done on behalf of the trust. This applies even where a Trustee who is not in the relevant profession, business or trade, could have done the work personally.

11. Liability of Trustees

A Trustee shall not be liable for a loss to the Trust Fund unless that loss was caused by his own fraud or negligence. The duty of reasonable care set out in section 1, Trustee Act 2000, or any Act of Parliament which supersedes that Act and which sets out a Trustee's duty of care, applies to all the functions of the Trustees.

12. No Duty to Investigate Exercise of Power

Where the agreement or consent of any person is needed for the exercising of a power by the Trustees, no person dealing with the Trustees needs to be concerned whether that agreement or consent has been obtained.

13. Choice of Law and Jurisdiction

This trust is subject to the law of England. The parties are subject to the jurisdiction of the English Courts.

Please let us know if you would like a copy of this in large print or Braille, or on audio tape.

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