



LOMBARD
INTERNATIONAL
ASSURANCE

Wealth Planning using Life Assurance

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Introduction

Who are we?



Lombard International: A global presence.

- Established in 1985
- AUM: \$330 billion (Dec 31, 2015)
- A+ credit rating (S&P, Fitch)



- 25 offices in 14 countries
- Over 2,000 employees
- Largest global alternative asset manager

*Funds managed by Blackstone
acquire Lombard International
Assurance (LIA): October 30, 2014*



LOMBARD
INTERNATIONAL
ASSURANCE

Luxembourg domiciled,
pan-European, insurance
carrier covering 20+ regions
including Latin America & Asia

*LIA acquires Philadelphia
Financial's life insurance companies
(PFG): June 30, 2015*

PHILADELPHIA
FINANCIAL

Pennsylvania domiciled
global specialty insurer &
administration company mainly
covering the United States

*LIA and PFG integrate and relaunch
to market creating a global leader
in wealth structuring solutions:
September 28, 2015*



LOMBARD
INTERNATIONAL

The **global leader** in wealth structuring using life assurance.



For over 25 years, we have been partnering with the advisers of high net worth individuals & institutions to secure the best future for our clients addressing their complex financial needs on a global basis.

\$75+ billion
in assets under administration*

Owned by Funds managed by
Blackstone

500+ employees
including
60+ technical experts
covering
20+ jurisdictions

* As of December 31, 2015.

Built for **partnership**. Built to last.



We are shaped to work with wealth advisers to leverage our expertise, so clients enjoy peace of mind while our partners concentrate on managing their wealth as efficiently & effectively as possible.

Our global core expertise...

WEALTH PLANNING

Tailored succession plans designed for control & flexibility with optimal tax efficiency.

PORTABILITY

Robust, long-term advantages in multiple jurisdictions.

NON-TRADITIONAL ASSETS

Broadest range of benefits for diversified portfolios.

...reinforced by solid foundations.

SUSTAINABLE BUSINESS MODEL

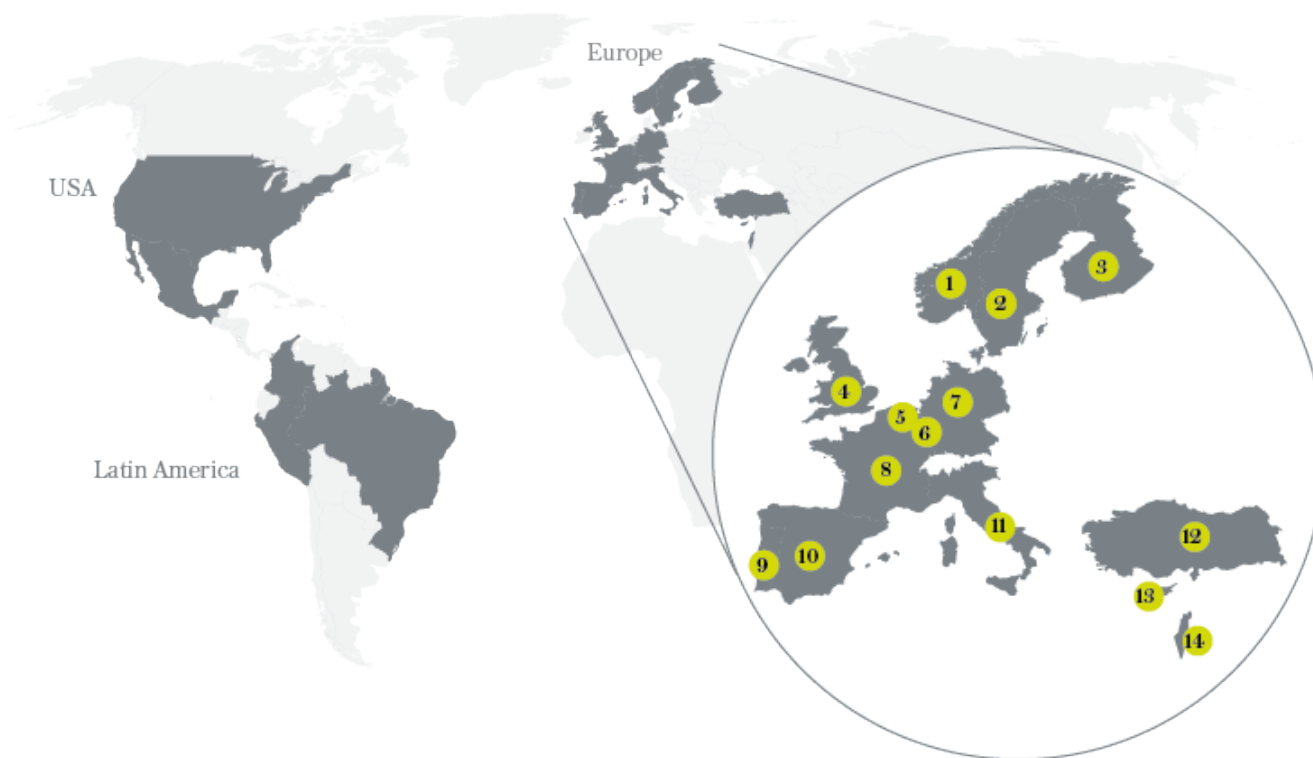
- Geographic diversification.
- Dedicated to unit-linked business; no guaranteed products.
- Profitable, cash-generating, debt-free.
- Open architecture & flexibility.

RISK MITIGATION

- Strong policyholder protection in multiple booking centres
- Use only fully robust solutions.
- On-going internal risk monitoring.
- Dedicated team focused on compliance across multiple jurisdictions.



An international presence.



Globally represented in:

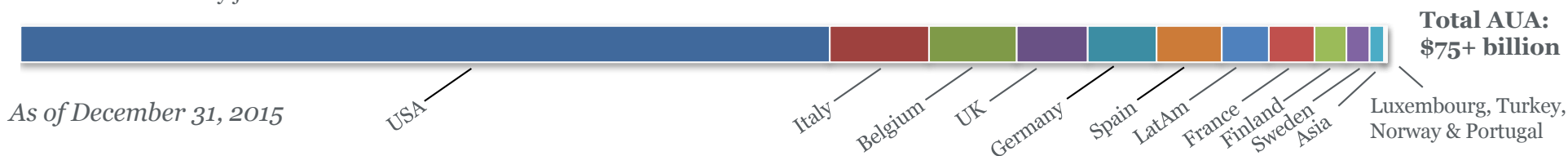
- United States
- Belgium
- France*
- Italy
- Luxembourg
- Switzerland
- Guernsey
- Bermuda

* Representative office of Lombard Intermediation Services S.A.

- | | |
|--------------|------------|
| 1 Norway | 8 France |
| 2 Sweden | 9 Portugal |
| 3 Finland | 10 Spain |
| 4 UK | 11 Italy |
| 5 Belgium | 12 Turkey |
| 6 Luxembourg | 13 Cyprus |
| 7 Germany | 14 Israel |

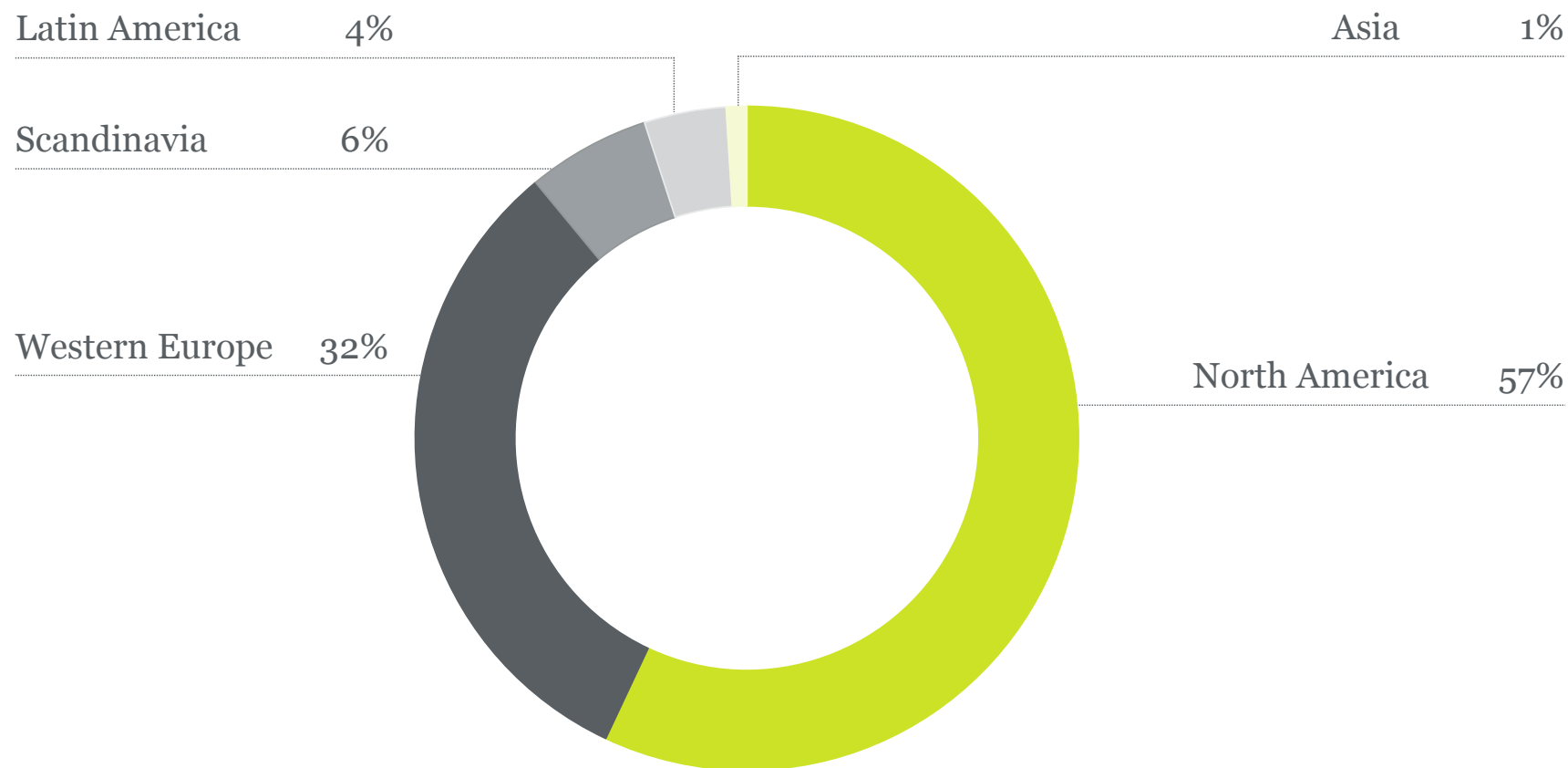
■ Markets for which we offer a wealth structuring solution.

Share of total AUA by jurisdiction





Assets under administration by regional market.



Global assets: \$75+ billion

As of December 31, 2015



Life Assurance

Helping you to plan

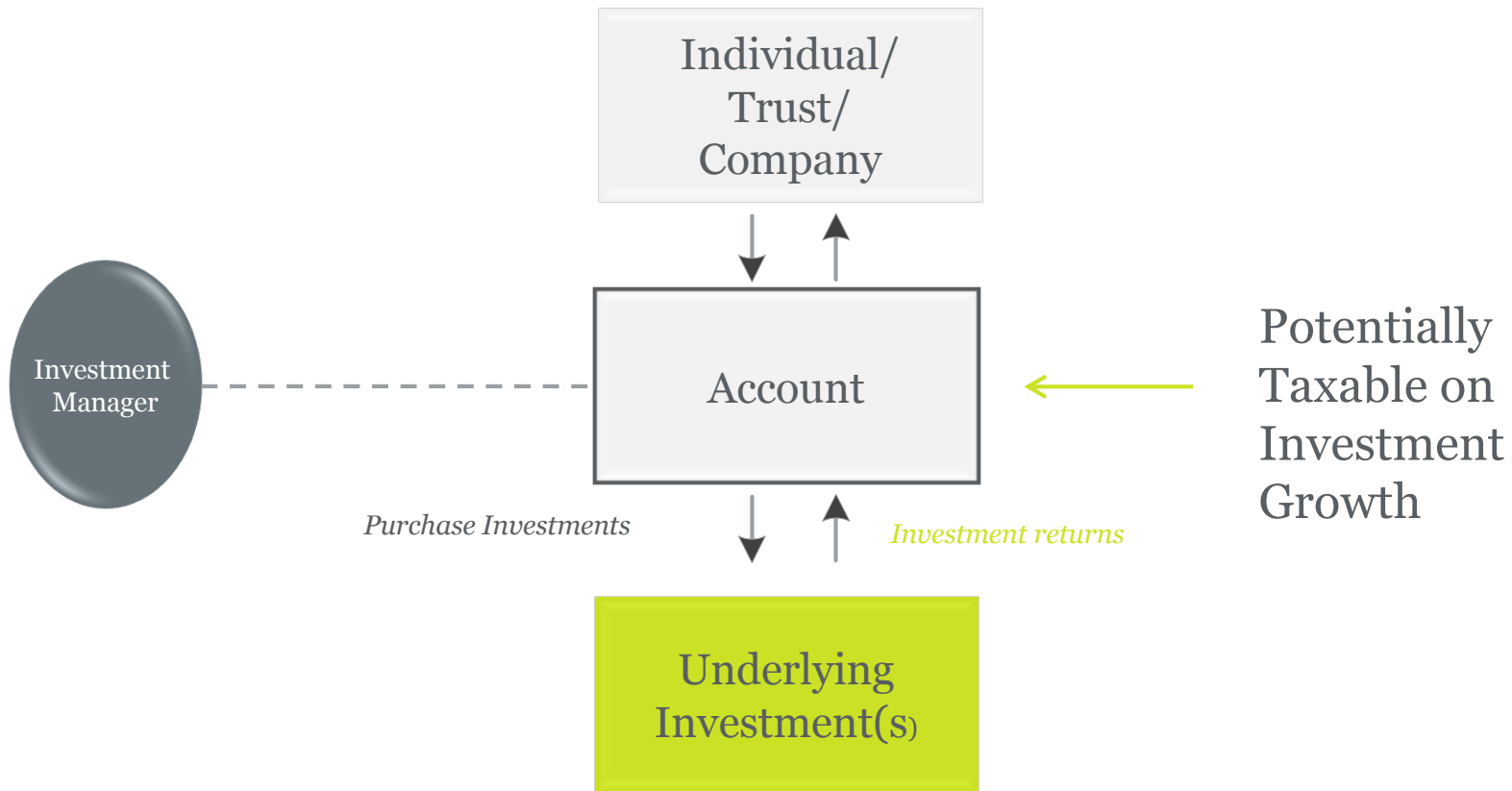


Life Assurance Definition

- A tax-efficient investment vehicle offering tax deferral on the underlying assets
- The value of the life assurance is linked to the value of the investments
- Not to be confused with traditional Life (or Death) Insurance
- Compliant with current rules and regulations; in the UK it is encoded in the Chargeable Events Legislation
- Not a scheme
- Referred to in the UK as the following:
 - Unit Linked Life Insurance
 - Offshore Bond
 - Private Placement Life Insurance
 - Offshore Life Policies



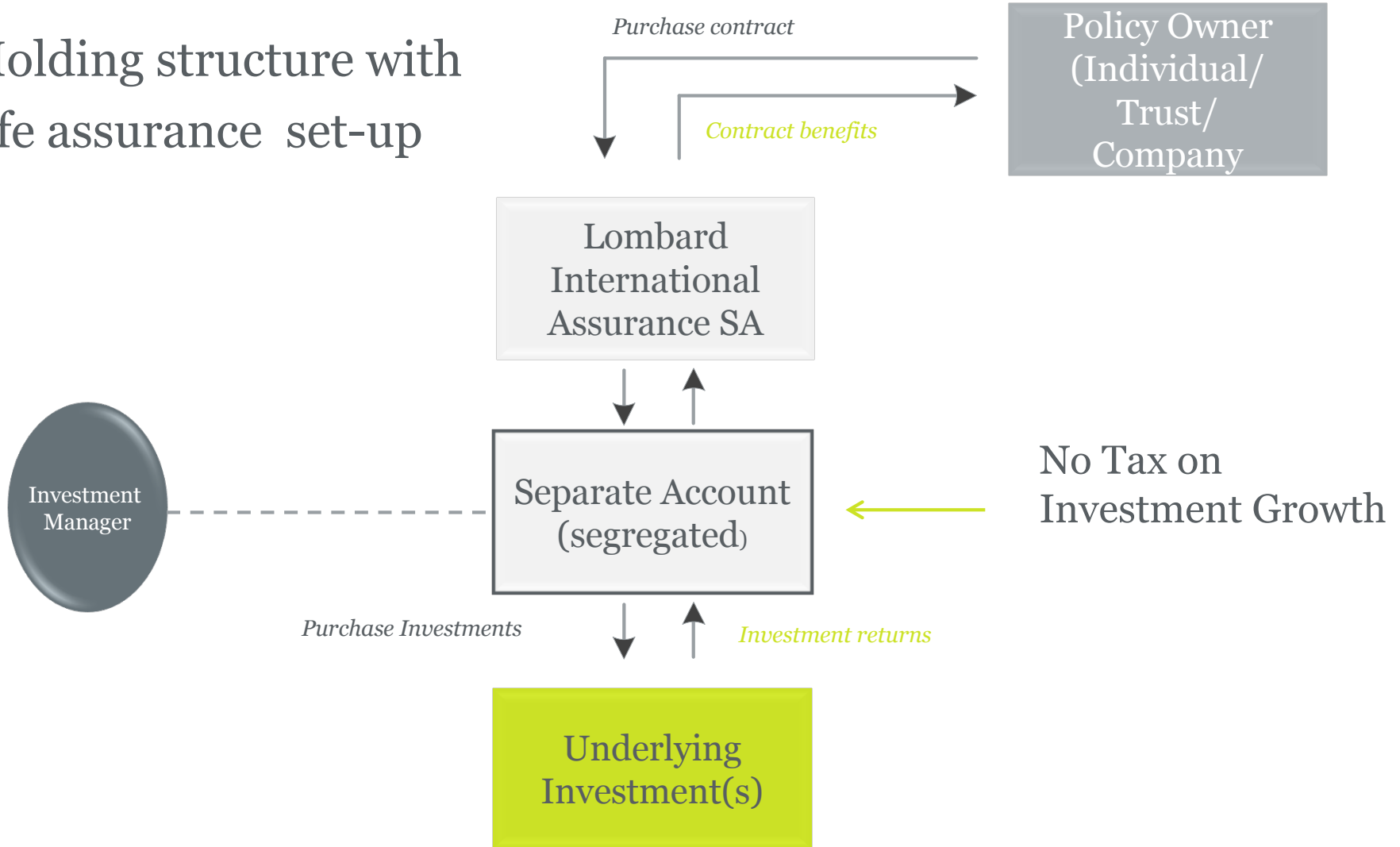
Holding structure without life assurance



Life Assurance (continued)



Holding structure with life assurance set-up





- Long term tax deferral with a compounding effect on potential growth
- No Remittance Basis Charge if all offshore wealth is held within a policy/policies
- EU portability / dual complaint UK-US policy
- Part withholding tax reclamation via Luxembourg's +75 DTTs
- Assignments which are gifts and not chargeable event
- Triangle of Security – Strongest Investor Protection Regime in EU
- Top Slicing Relief on surrender of policy segments (see slide 20)
- Time Apportionment Relief, i.e., planning with periods of residence outside of the UK (see slide 21 and 22)



Retain Access to Capital

- 5% tax deferred withdrawal allowance
 - Cumulative
 - Carry forward if unused
- Counter-balance to low yield investments
- If policy purchased with mixed funds – withdrawals can defray offshore expenses
- Unique!



No Segregation of Capital and Income

- Clean capital stays clean
- Ring-fence foreign income/gains
- Save administrative fees
- Possibly plan with two policies, one for the pot of clean capital and one for the pot of mixed funds
- Avoid risk of accidental:
 - Remittances
 - Mixing of funds



Investment Flexibility

- For a RND policy can hold UK situs assets
 - No remittance issues
 - Gains can be re-invested without tax charge
- Assign to lender as security for a loan*
- If custody of the assets in Switzerland, no Swiss Stamp Duty on investments

** Assumes policy funded with clean capital to avoid potential remittance issues*



Policy Assignments

- Assignments by way of gift are not chargeable events for UK tax purposes
 - Including assignment to spouse
 - Assignment from joint to sole owners and
 - Assignment from trustees to beneficiaries
- Chargeable gains on surrender are added to the new owners' income
- C/F disposals for CGT purposes



Reporting Obligation

- Only when chargeable event → gains reportable
- Withdrawals within cumulative 5% allowance → no need to report
- CRS/FATCA at policy level (unless policy owned by a trust or other entity that needs to report itself)



Top-Slicing Relief: how to pay brt on £1m+ of gains

Calculate the gain as normal (TB – TD + PG)

- Divide gain by whole years of ownership
- Add slice to income to determine tax payable/slice
- Total tax payable = tax payable/slice X number of years
- If income (including the slice) is below basic rate tax threshold then highest rate of tax is 20%

- H&W, 1995 Investment £ 5,000,000
- Value (2015) £10,000,000
- Extracts £2m with £1m gain
- Slice £ 25,000

- Assuming their other income is equivalent to the personal allowance the Basic Rate Tax payable on the whole gain!
- Repeat as needed



Time Apportionment Relief

- Applies to offshore bonds, and onshore bonds
- Reduction in taxable gain reflecting period of non-residence
- How does it work? Gain is multiplied by:

A (number of days residence in the UK)

B (number of days in force up to chargeable event)



Time Apportionment Relief

- No relief if the policy has ever been owned by an offshore trust or other foreign entity
- New “material interest period” test from 06/04/2013, being that part of the policy period during which the individual claimant meets one of the following conditions:
 1. The individual beneficially owns rights under the policy or contract
 2. The rights are held on non-charitable trusts which the individual created
 3. The rights are held as security for the individual’s debt

The only exception to this rule is where there is a gift by assignment between spouses/civil partners living together



Diversify The Tax Risk

- Life policy taxation is rooted in statute, and has changed little since the 1970s
- What happens if the tax-take from RND's remains constant (or falls) post April 2017?
- Are clients concerned over the number and frequency of changes since 2008?
- Offshore bonds are non-UK situs and combine well with Excluded Property Trusts



Planning points pre/post-April 2017



Draft legislation

- Inclusion in Finance Bill 2017
- Draft Income tax anti-avoidance provisions outstanding

No permanent non-domicile status (15/20 rule)

- Remittance basis no longer available to deemed domiciles
- System has been in place for over 200 years



For directly held foreign assets

- Uses market value at 5/4/2017
- Applies automatically to foreign situs assets (held offshore between 16/3/16 and 5/4/17)
- Available to RND's becoming deemed domiciled on 6/4/17
- Only post 6/4/2017 gains taxed on the arising basis
- Remittance basis relevant if asset purchased with all/part foreign income/gains



Case Study 1

Mr N Dom holds a portfolio of quoted shares

- Deemed domiciled from April 2017
- Share portfolio cost £5,000,000*
- Shares worth £10,000,000 on 6th April and sold
- **No CGT payable, and all clean capital**
- Proceeds invested in a life assurance policy at 6/4/2017:
 - **Clean capital is ring-fenced**
 - No tax on future sale of underlying asset/s
 - 5% tax deferred withdrawal facility
 - Future policy gains taxed on surrender

* not purchased with foreign income/gains



Case Study 2

- Mrs N Dom – deemed domiciled from 6/4/17
- Holds a portfolio of non-reporting hedge funds (directly)
- £2m gain
- No rebasing option available
- Remittance basis ending
- Consider final remittance basis election for 2016/17, then
- Transfer funds into a life assurance policy before 6/4/2017*
- Mrs N Dom is contemplating a gift to Miss N Dom (UK resident daughter considering a future move to France)

* Advice may be required in respect of PPB implications



Case Study 2

Benefits

- No tax on sale of underlying asset/s with £2m gain
- Assignment of policy to Miss N Dom?
 - Gifts are not chargeable events
 - Inherent/future gains taxed on subsequent surrender
 - Miss N Dom is the new tax point
- Policy additions do not affect taxation of underlying assets



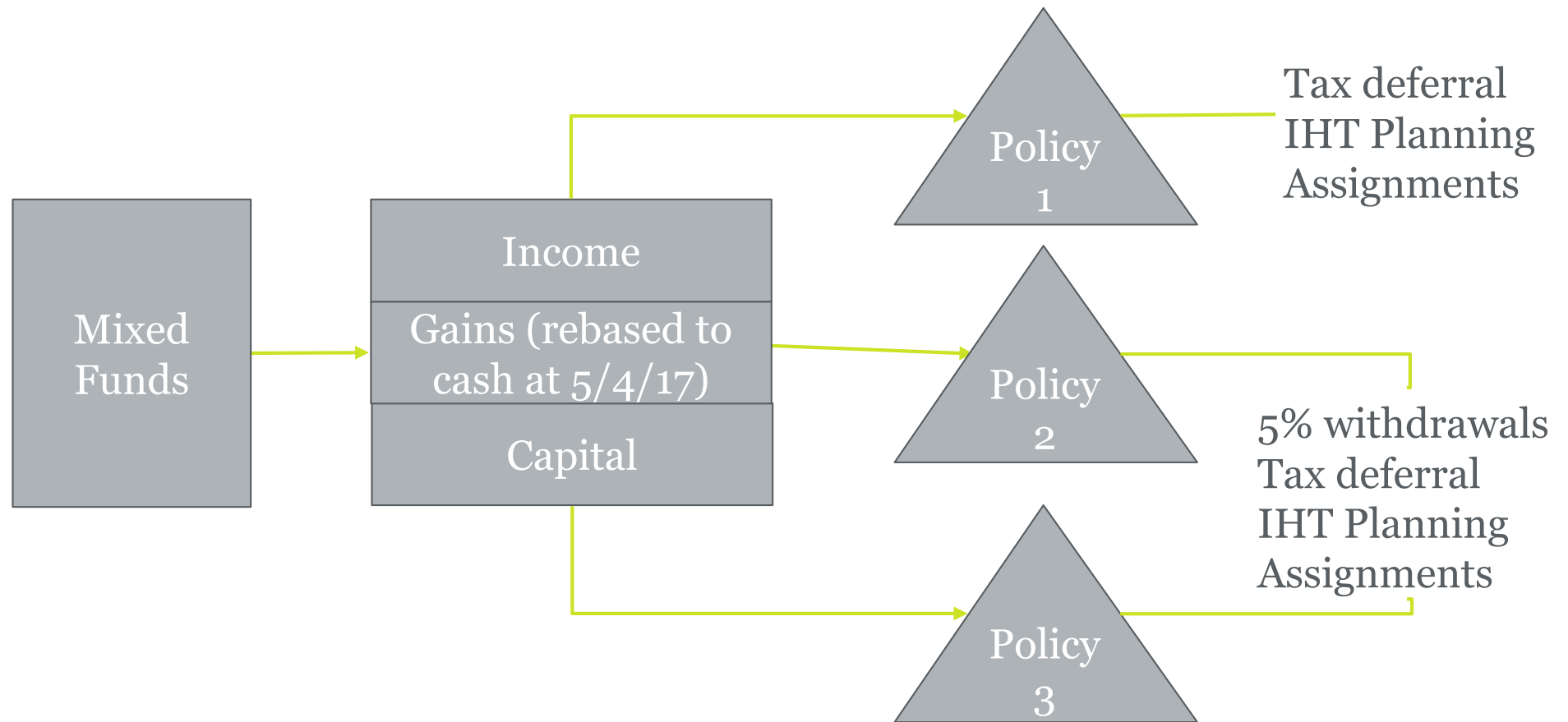
Cleansing of Mixed Funds

Temporary window

- 2017/18 - 2018/19 tax years
- Mixed funds held personally in overseas bank accounts can be re-arranged into constituent parts
- Available to all non-domiciled persons
- Creates pools of clean capital
- Must have used remittance basis in past

Cleansing of Mixed Funds (continued)

For all RNDs during 2017/18 and 2018/19 tax years





Case Study 3

Rebasing and cleansing

- Mr N Dom becomes deemed domiciled at 6/4/17
- Mixed fund of £10m, comprising
 - £5m capital
 - £3m foreign gains*
 - £2 foreign income

** Cash proceeds of sale after automatic rebasing at 5/4/17*



Case Study 3

Two life assurance policies effected

1. £8m (capital & rebased foreign gains)
 - UK access intended
 - 5% tax deferred withdrawals etc

2. £2m (foreign income)
 - Ring fenced
 - Assignment to non-relevant persons in future?



Changes to Offshore Trust Taxation

Where settlor becomes deemed-domiciled under the new rules:

- Offshore trusts established while the settlor was not deemed UK domiciled are protected
- Long term gross roll-up is available, but
- Payments to settlor/close family members matched with trust income and gains
- “Additions” are no longer viable
 - Subsequent protection lost - reversion to “arising basis”
- Foreign assets (excluded residential property) remain excluded property for IHT purposes

For all foreign trusts:

- No “washing out” of gains via payments to non-resident beneficiaries
- Anti-recycling rule



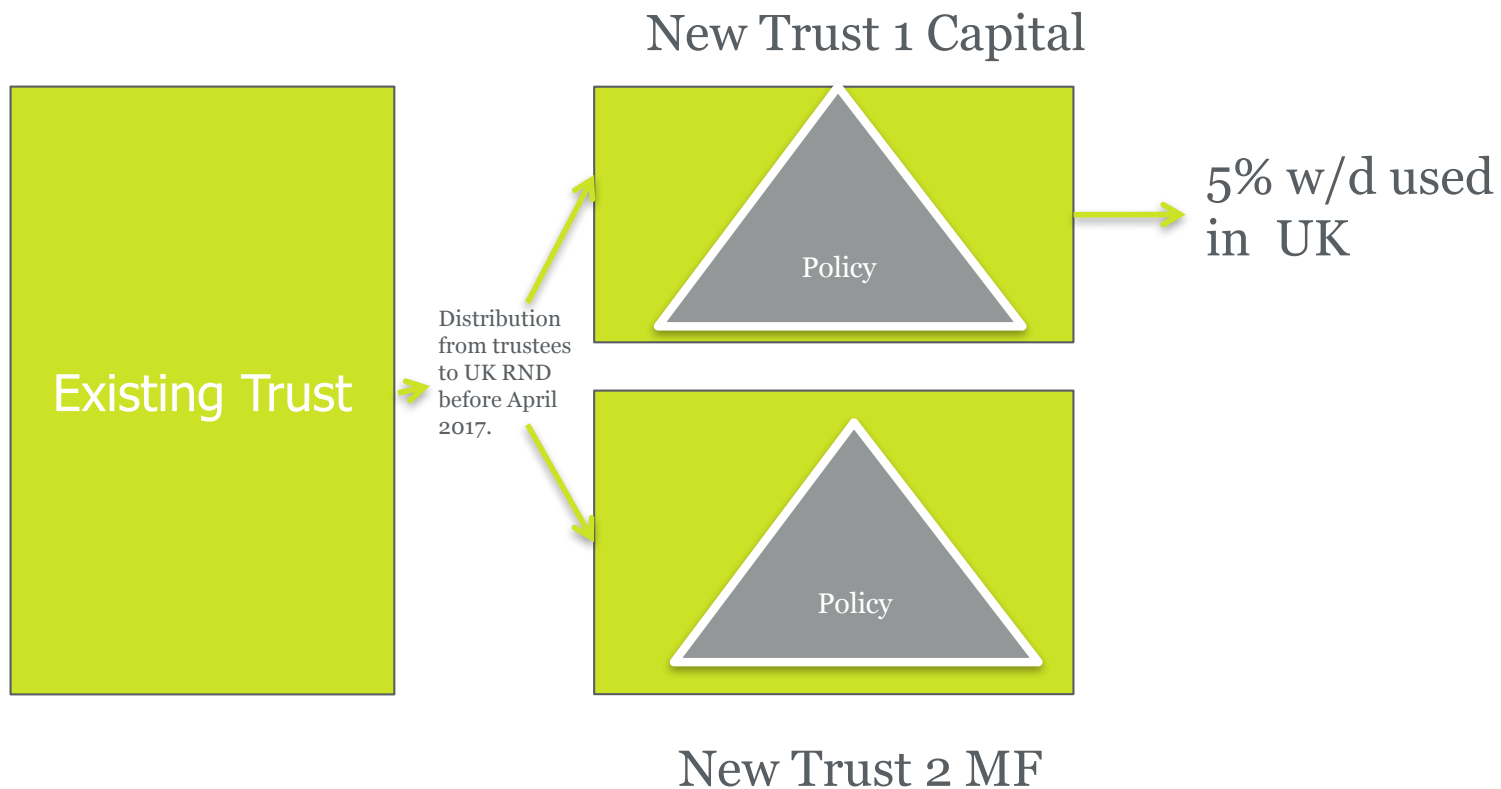
Case Study 4

Pre-April 2017 planning using life assurance

- Consider:
 - Mrs N Dom makes remittance basis election for 2016/17
 - Distribution of benefits from trustees to Mrs N Dom, who creates a new offshore trust (or trusts) holding a policy/ies before 6/4/17
 - Offshore trustees continue to hold direct assets via original trust
 - Earmarked for medium/long term with no short term access likely
 - Trustees of new offshore trust/s purchase a policy or policies to hold bankable assets

Case study 4*

For RNDs becoming deemed domiciled as at April 2017
Remittance basis election 2016/17



** Appropriate legal/tax advice needed before planning*



Case study 4

Benefits to Mrs N Dom

- Diversify tax risk
- CGT/IT protections in original settlement
- IHT protection remains
- Income tax anti-avoidance provisions?
 - 5% tax deferred withdrawals from trust comprising clean capital
- Assignment of policy segments if capital benefits needed
- No washing-out/anti-recycling constraints



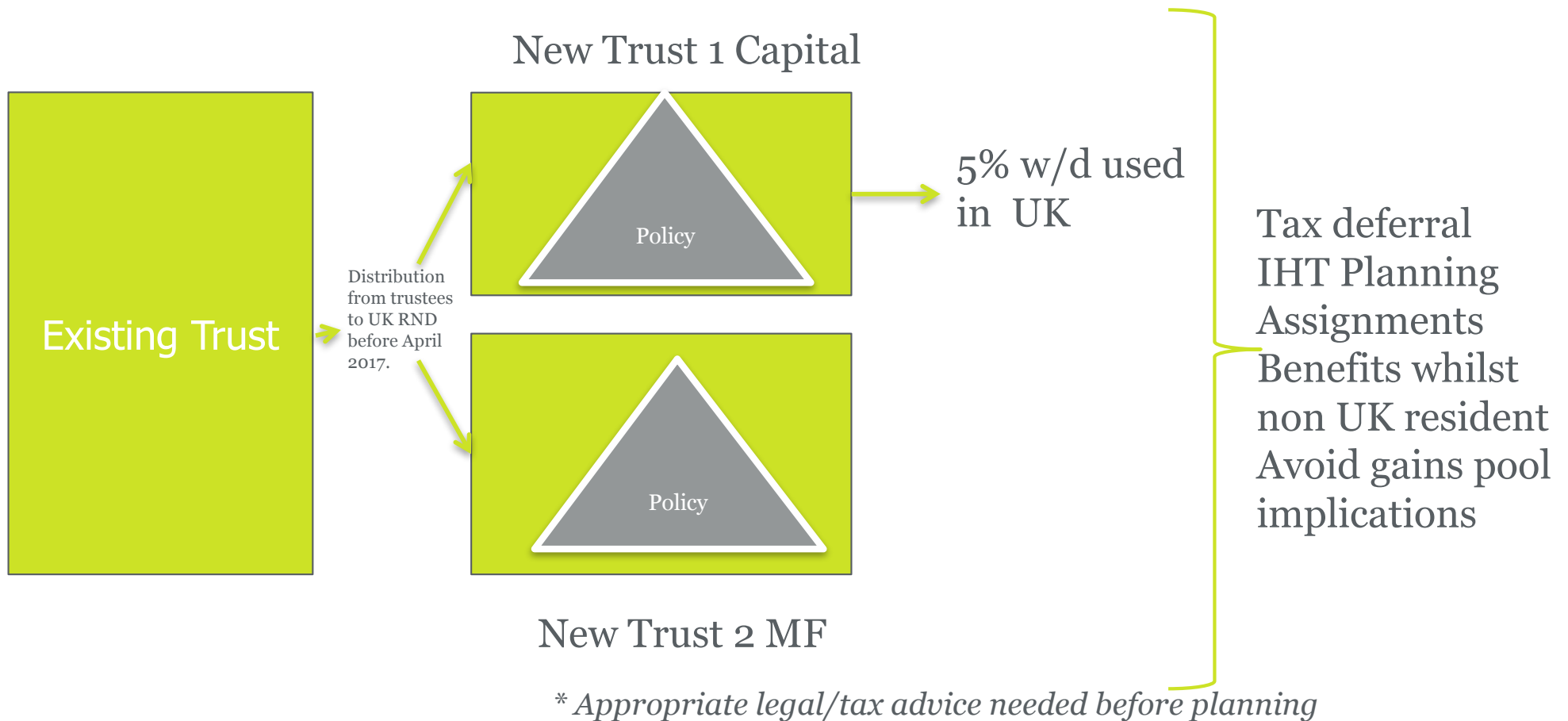
Case study 4

Future benefits on assignment of policy segments to adult beneficiaries who are not relevant persons

- No chargeable event for IT purposes
- Beneficiaries may be non-resident
- Fully portable, and
- Non-relevant persons can bring withdrawal proceeds into the UK without triggering remittance

Case study 5*

For RNDs becoming deemed domiciled as at April 2017
Remittance basis election 2016/17





Inheritance Tax

Planning with Life Assurance



IHT

- 15/20 year rule – global taxation of income and gains on an arising basis.
- Worldwide estates within scope of U.K. IHT
- Deemed domicile for IHT after 13 calendar years plus 2 days
- Four plus tax years abroad to lose deemed dom status for IHT

- Structures holding UK property
- Debt and relevant loans
- Collateral



Returning Domiciles of Origin

IHT on their worldwide estate

- Grace period – not treated as domiciled in the UK for IHT unless resident for at least one of two years prior to the tax year in question.
- Non resident trusts established by such individuals will be treated as a relevant property trust.
- GROBs may apply.
- Periodic and Exit charges unless the settlor leaves the UK.

Planning

- Leave the UK to lose deemed dom treatment unless:
 - Domicile under general law
 - Resident in UK for more than 15 out of the last 20 years
- Life Assurance policies
- IHT planning for as for a UK RD



- Lose domicile on later of:
 - Six years of non residence, or
 - Acquisition of foreign domicile (IHT only)



A New Market

- 15/20 year rule – pay UK tax on arising basis on worldwide income and gains. Worldwide estates within scope of UK IHT
- Loss of excluded property trust status for returning doms



Is control the preserve of the trust?

‘I want to make gifts to my children to minimise inheritance tax in the UK but I still need to live off of the funds .’





Discounted Gift Trust: Advantages

- Gift to children with a right to receive an income
- Provides an income for life as long as funds are inside the policy
- Immediate reduction in potential IHT liability at death
- Initial investment not subject to (further) IHT after 7 years
- Investment growth accumulates outside settlor's estate
- Tax-deferred 'income' of up to 5% per annum from life policy
- Children do not get access until the parents pass away



Discounted Gift Trust: Case Study 6

- Policy of e.g. £2m
- Exchanged for income of e.g. £100,000 p.a.
- Value retained based on life expectancy & income
- Transfer value is difference between amounts settled and retained e.g. £0.8m*
- Bare or discretionary trust

*Indicative only

NIL VALUE
AT DEATH

OUTSIDE
ESTATE

Settlor

Trustees

Tax-deferred
income

Discounted
PET or CLT

Life Policy

+
Growth



Is control the preserve of the trust?

‘I want to make gifts to my children but am worried that they may spend the money unwisely.’





- A gift of a life policy
- Unlimited contributions
- Structured access to benefits
- Some of the advantages of pre-2006 trusts without associated IHT disadvantages
- Assets removed from estate for IHT and protected until donee sufficiently mature



Whole of life policy

Suppression period:

- Surrender option removed
- Withdrawals and regular withdrawals limited or excluded

Whole of life policy

Assignee takes policy subject to restrictions on access

On expiry of suppression period, restrictions lifted



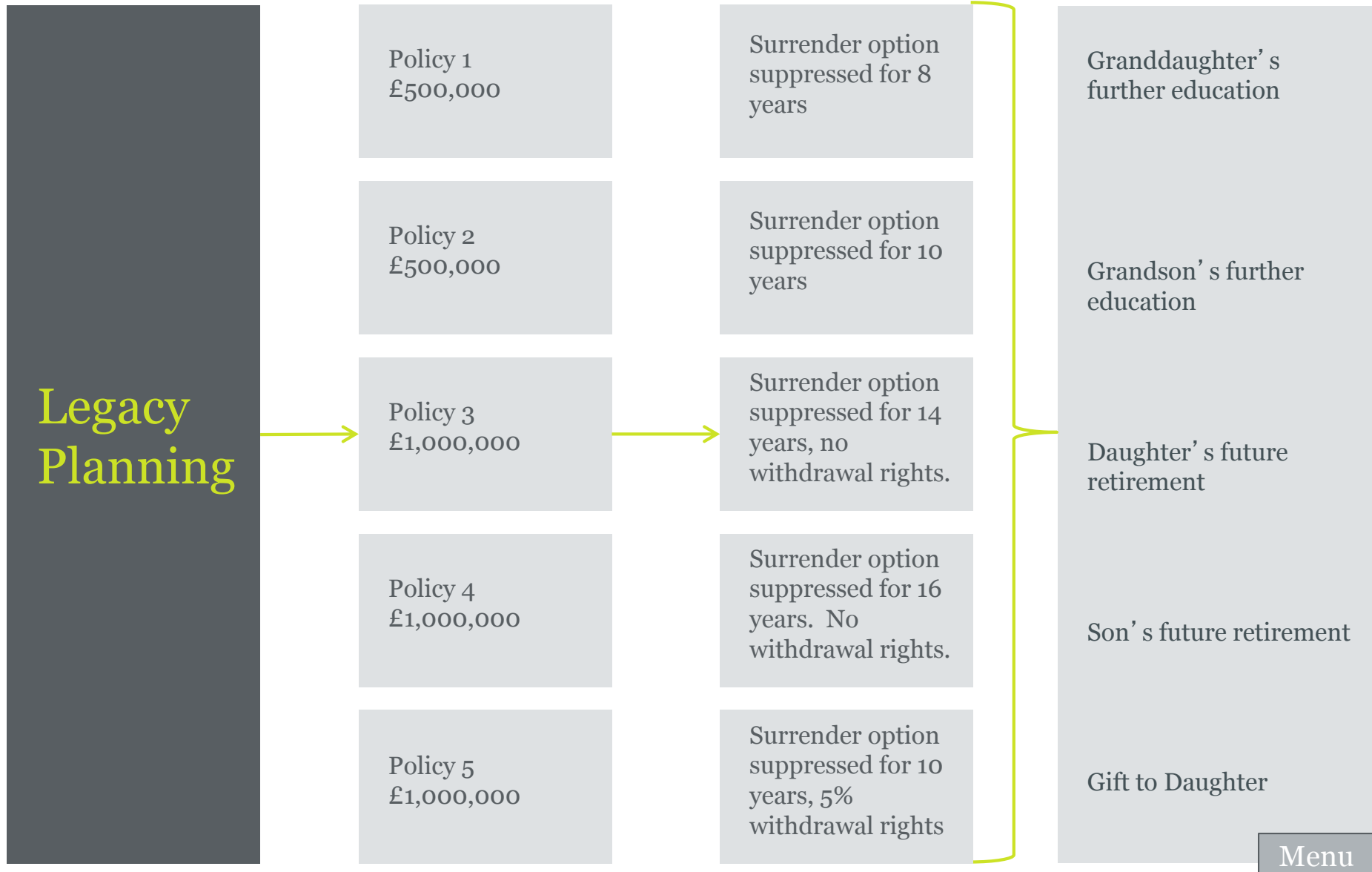
Assignment

- No chargeable event
- s 167 IHTA '84 special valuation



- Potentially Exempt Transfer for IHT
- Donor controls beneficiary's access
- 5% withdrawals may support educational needs
- No chargeable event on death during suppression period
- If beneficiary dies during suppression period, policy value for IHT purposes may be discounted

The Accumulation & Maintenance Plan: Case Study 7



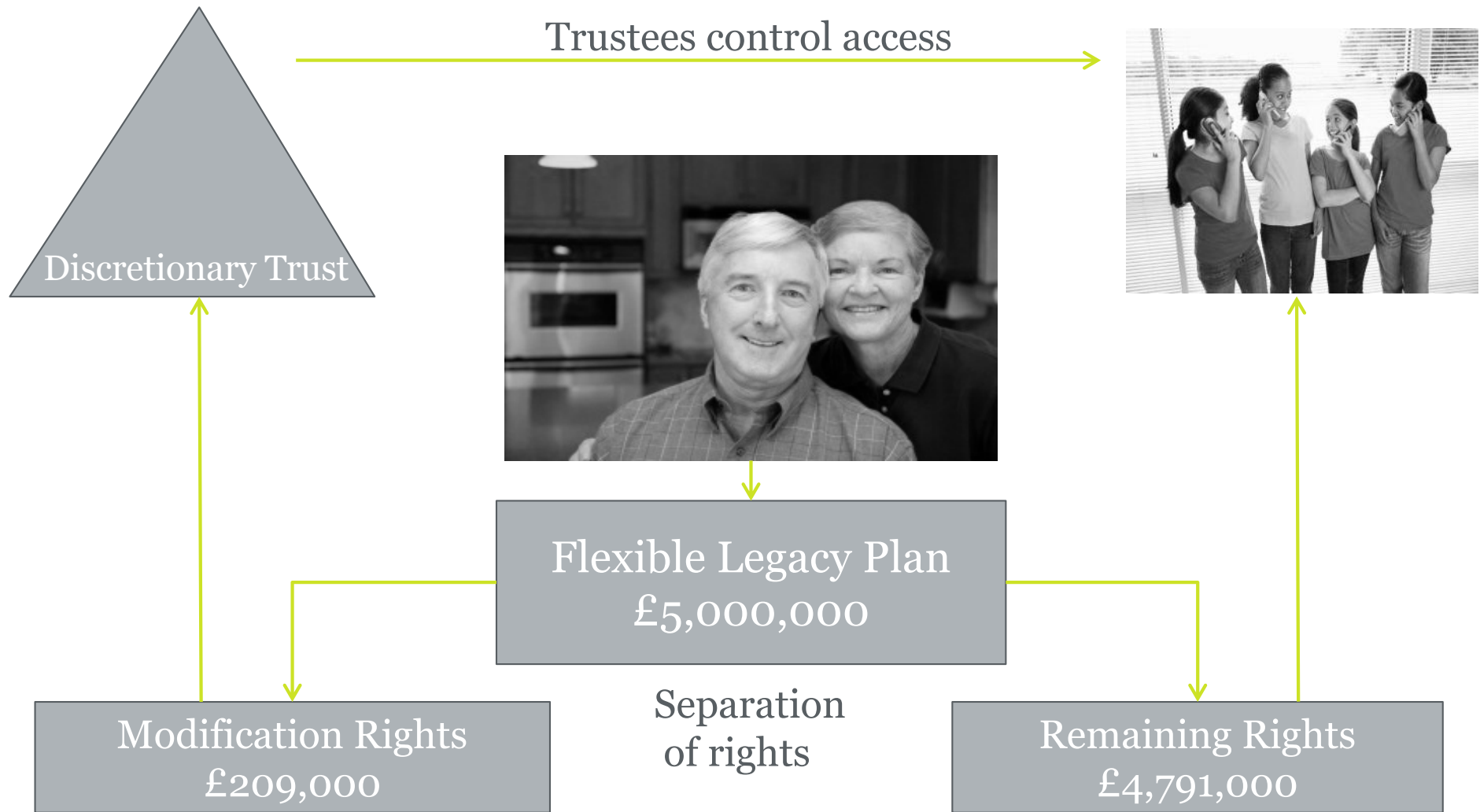


Is control the preserve of the trust?

‘I like the A&M Plan but what if circumstances change in the future and we need more or less access to the policy for the children.’



Flexible Legacy Plan: Case Study 8



Example: to turn income on and off

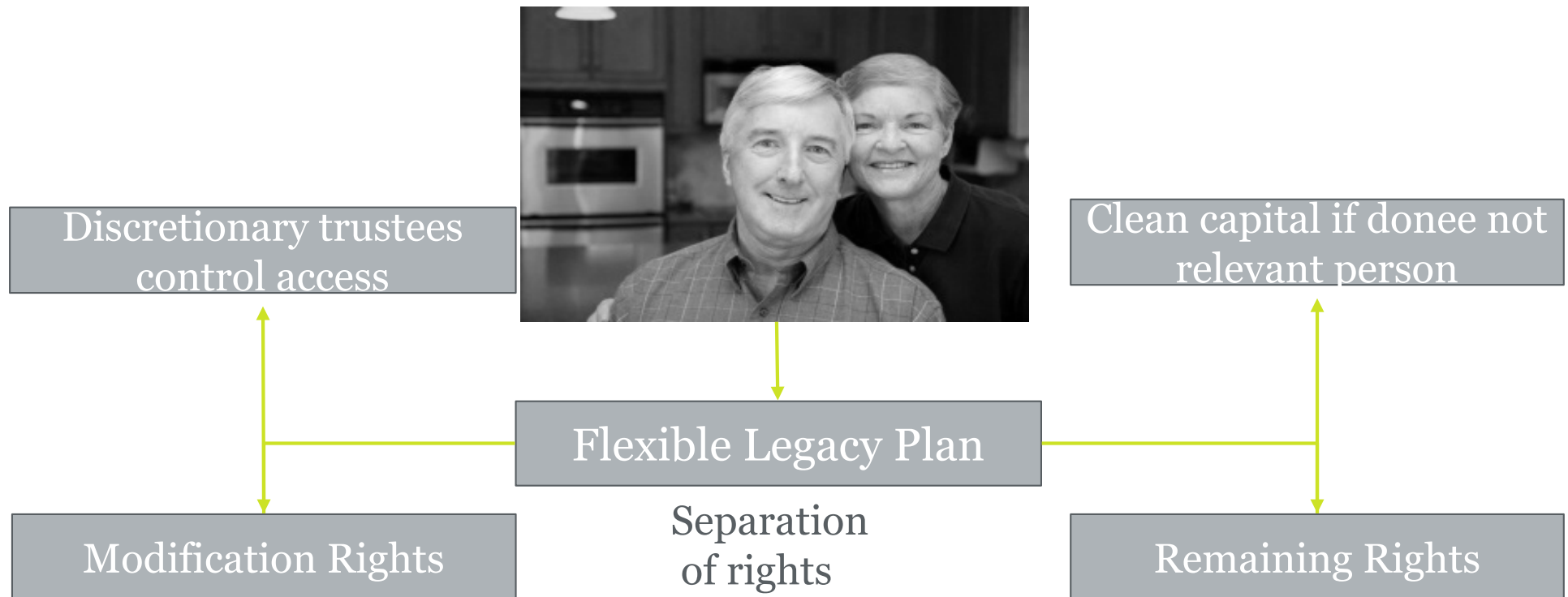


Gifts to non-relevant persons

*Control with Life
Assurance*

Flexible Legacy Plan: Case Study 9

- Whilst RBU
- Transfer Non Situs UK Assets to a Flexible Legacy Plan
- Creation of Clean Capital and Retention of Control





The Dual Compliant Solution

Wealth Passport – UK/US Hybrid Policy

Example of Dual Compliant Solution – UK Life Insurance/US Annuity



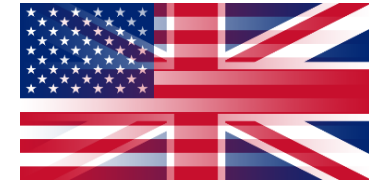
- Policy qualifies as life insurance for UK tax purposes and as an annuity for US federal tax purposes

US Annuities	UK Life Assurance
Payment at annuitization date Compulsory distributions (Code section 72(s))	Insured Event First or last death
Investor Control Doctrine No influence Cash funding	Personal Portfolio Bond rules (s 515 et sec ITTOIA) Permitted assets Discretionary management
Diversification (Code section 817(h))	
Original Issue Discount	
Annuitants and Annuity Options	

Example of Dual Compliant Solution – Life Insurance/Annuity (cnt'd)



- Deferral in both jurisdictions
- Consolidated reporting
- Investment flexibility



Event	UK	US
Investment	Not taxable	Possible federal excise tax
Accumulation	Tax-deferred	Tax-deferred
Withdrawal	5% tax-deferred Excesses and gains = income tax	> Age 59.5 = LIFO (income tax) < Age 59.5 = LIFO plus 10%
Annuitisation	Taxed as part or total surrender	Part return of capital, part gain
Death	If gives rise to payment then gain taxed. Possible inheritance tax	Income tax on gain. Possible estate tax

DUAL COMPLIANCE: ADVANTAGES



- Deferral of tax on income and gains in both markets
- Established and recognised solution
- Access to international investments
- Immediate client is (non-US) insurer
- Asset security
- Consolidated tax reporting
- Succession planning opportunities
- High value-added service to US-connected clients



Summary

US

- Simple, recognised solution
- Tax deferral
- No tax reporting on underlying assets and transactions
- Wide choice of investments
- Broader range of investments available
- Investor protection
- Owner can be trust for US estate tax planning
- No requirement for adviser to be SEC registered

UK

- Simple, recognised solution
- Tax deferral
- Time apportionment relief
- Non-income producing
- Wide choice of investments
- Can be used with suitable trust structures
- Can maintain adviser relationships
- May be possible to optimise US tax credits



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