

PRESS ARTICLE

RELEVANT LIFE POLICIES – LET THE TAXMAN PAY FOR YOUR LIFE INSURANCE | JUNE 2011

If you are a company director and have life assurance in place to protect your family, you could be paying more tax than you need to for this type of cover.

A Relevant Life Plan is an excellent way of providing new life cover for loved ones and ensuring part of the cost is paid by the taxman. This plan is suitable for employers who, perhaps because of the smaller size of their business, do not wish to set up a group life arrangement for all of their employees or provide additional benefits to individual employees

To qualify for a relevant life policy status, there are certain requirements the plan has to meet. It must provide only life cover, the term cannot exceed the 75th birthday of the individual and no surrender value is allowed.

There may also be a benefit limit imposed by companies operating in this market, based on remuneration. Remuneration can include salary, bonus and dividends, plus any taxable benefit in kind.

Benefits must be payable to an individual, charity or to a trust and typically, the plan will be written through a discretionary trust to ensure this requirement is met.

The benefits of a Relevant Life Plan are that although the company pays the premiums, the Director or employee is not normally assessable to income tax as a benefit in kind. This can represent a significant saving, particularly for a higher rate taxpayer.

The benefit does not form part of an annual or lifetime pension allowance and it may be possible to treat these payments as an allowable expense for calculating tax liability, as long as the local inspector of taxes is satisfied the individual qualifies under the 'wholly and exclusively' rules.

In most cases the benefits are paid free of inheritance tax, provided the benefits are payable through a discretionary trust.

For example, if we assume a Director is paying £200 per month for life cover from post tax income and is paying income tax at 40% and national insurance at 2% on the top end of their income, this would result in a total cost to the individual of £313.93 per month.

A Relevant Life Plan would cost the company £200, minus a 20% Corporation Tax deduction of £40, making a net payment by the company of £160 per month, which is a saving of £153.93 per month or 49%. This is assuming that corporation tax is payable at the small companies rate of 20% and national insurance at the contracted in rate of 13.8%.