

## Let the Taxman Help Pay for Your Life Assurance – Relevant Life Policies

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.

These plans are an excellent way of providing new life cover for your loved ones and have part of the cost paid by the taxman.

### What are the Benefits?

- Although the company pays the premiums, you are not normally assessable to income tax as a benefit in kind. This can be a significant saving, particularly for a higher rate taxpayer.
- The benefit will not form part of your annual or lifetime pension allowance.
- You may be able to treat these payments as an allowable expense for calculating your tax liability, as long as the local inspector of taxes is satisfied you qualify 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.

### Example of How a Relevant Life Policy Can Cut Tax on Company Costs

Payment		Ordinary Life Policy	Relevant Life Policy
		£1,000	£1,000
<b>Company Gross Cost</b>	Employees National Insurance Contribution @ 2%	£34	-
	Income Tax @ 40%	£690	-
	Employer's National Insurance Contributions @ 13.8%	£238	-
	<b>Total Gross Cost</b>	<b>£1,962</b>	<b>£1,000</b>
<b>Company Net Cost</b>	Corporation Tax Relief @ 20%	£392	£200*
	<b>Net Cost</b>	<b>£1,570</b>	<b>£800*</b>

\*Assumes that corporation tax relief at 20% has been granted under the 'wholly and exclusive' rules.

In both cases we have assumed a payment of £1,000 each year for the life cover and the individual is paying income tax at 40% and national insurance at 2% on the top end of income. We have also assumed that corporation tax is payable at the small companies' rate of 20% and national insurance at the contracted in rate of 13.8%.

### Are there any Restrictions?

Yes. 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.
- No surrender value is allowed.
- Benefits must be payable to an individual, charity or to a trust. Typically the plan will be written through a discretionary trust to ensure this requirement is met.
- There may be a benefit limit imposed by the two individual companies operating in this market based on remuneration. Remuneration can include salary, bonus and dividends plus any taxable benefit in kind.



If you do not keep up the payments of a Life Assurance (or other protection) policy - your cover may cease.