

Relevant Life Policies - how the tax man will help pay for your life cover

If you're a higher earner or the owner of a small business, you could be paying over the odds for life insurance and missing out on significant tax advantages.



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Registered Group Life Assurance (Death In Service) schemes pose problems for higher earners as any lump sum benefits paid from an approved scheme form part of the lifetime pension allowance (currently £1.5m, reducing to £1.25m in 2014) and any excess is taxed at 55%.

In addition, small firms with fewer than 5 employees can have difficulty getting access to Group Life insurance schemes anyway.

However with a relevant life policy these issues are removed. Each policy is taken out on a single life basis, the benefits are written in trust and the company pays the premiums. As a result, the benefits do not form part of the individual lifetime pension allowance and they are not classed as a P11D benefit, therefore not subject to employee National Insurance or tax. The company also benefits as the premiums are likely to be deductible as a trading expense (provided they are wholly and exclusively for the purpose of the company's trade) and employer National Insurance is no longer payable.

The table below compares the cost for ordinary life cover versus a relevant life policy:

		Ordinary Life Cover	Relevant Life Policy
Payment		£1,000	£1,000
Company gross cost	Employee's NI contribution at 2%	£34	Nil
	Income tax at 40%	£690	Nil
	Employer's NI contribution at 13.8%	£238	Nil
	Total Gross Cost	£1,962	£1,000
Company net cost	Corporation tax relief at 20%	£392	£200*
Net cost		£1,570	£800*

** Assumes that corporation tax relief at 20% has been granted under the 'wholly and exclusively' rules. In both cases we have assumed a payment of £1,000 each year for life cover on an employee paying income tax at 40% and employee's National Insurance at 2% on the top end of income. We've also assumed the employer is paying corporation tax at the small profits rate of 20% and will pay employer's National Insurance at the contracted in rate of 13.8%.*

For further information or assistance with your own life cover, please call us on: 01789 263257 or email: justask@jjfsltd.com