

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



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

Small firms with fewer than 5 employees can have difficulty getting access to Group Life insurance schemes anyway.

However with a relevant life policy this issue is 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% | <u>£238</u>         | <u>Nil</u>           |
|                    | Total Gross Cost                    | £1,962              | £1,000               |
| Company net cost   | Corporation tax relief at 19%       | <u>£373</u>         | <u>£190*</u>         |
| Net cost           |                                     | £1,589              | £810*                |

\* Assumes that corporation tax relief at 19% 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 25% on the top end of income. We've also assumed taxable profits are less than £50,000 and the employer is paying corporation tax at the small profits rate of 19% and will pay employer's National Insurance at the contracted in rate of 13.8%. These figures are based on our understanding of current taxation rules and regulations and may be subject to change.

For further information or assistance with your own life cover, please call us on: **01789 263257**  
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**Information in this document is valid for tax year 2023/24**

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