

Is a Relevant Life Policy right for you?

A Relevant Life Policy is a plan which provides death in service benefits for the employee assured. The lump sum is paid on the death of the employee. The plan must be held in a discretionary trust and benefits are paid tax free to the nominated beneficiaries.

They are designed for employers who want to offer life cover to specific employees (directors or high earning employees) above the available group scheme or, where the company has insufficient employees to qualify for a group life scheme.

Real benefits and tax implications for both employee and employer:

- Unique individual stand-alone cover.
- Tax advantages for high earners.
- Cover up to 20 times annual salary for clients aged 39 or under.
- Cover up to 15 times annual salary for clients aged 40 and over.
- Payments made to pay the premiums by the employers are not subject to Income Tax or National Insurance and they are not treated as a benefit in kind. They are however, usually considered as business expenses and therefore will be tax deductible.
- In addition, premiums paid do not increase the employer's liability to National Insurance contribution.
- It offers high-earning employees who have substantial pension funds a number of tax advantages because the lump sum benefits do not form part of the employee's annual or lifetime pension allowance.
- Benefits are paid tax free (Inheritance Tax) to beneficiaries.

Are there any limits to the cover I have?

- The legislation does have some limits to qualify for the tax concessions, and to ensure these are met:
- The cover must be paid in a single lump sum before the age of 75.
- Only death benefits can be provided.
- Benefits must be paid through a discretionary trust.
- Beneficiaries are normally restricted to family members and dependants.

What are the advantages of using a discretionary trust?

- There are restrictions in the legislation on who benefits can be paid to. The use of the trust is the most practical way to make sure these requirements are met. The beneficiaries who could be included are usually family members and dependants.
- Having benefits paid through a trust ensures they can't be taxed as part of the company's trading income, nor do they form part of the company's assets.
- The trust is discretionary, allowing trustees to be flexible in whom they pay benefits to. However, the person covered can advise the trustees of their intentions by completing a nomination form. Although this is not legally binding on the trustees, it helps to guide them. The trustees will normally be the directors of the company.
- Using a trust also ensures that in most circumstances benefits are paid free of both income tax and inheritance tax.

PERSONAL • PROFESSIONAL • PERFORMANCE



Look at the real cost in practice

Alex Rouman is a shareholding director of WBO Ltd. He currently pays for his life assurance personally at a cost of £200 per month out of his salary after deductions. As Alex is also a business owner, we will look at both his personal and business costs and the taxation of providing this cover.

Alex is a higher rate taxpayer; he pays 40% Income Tax on the higher part of his salary. He also pays the additional 2% rate above the upper earnings limit for National Insurance. WBO Ltd pays employers National Insurance contributions at the "contracted in" rate of 13.8%. In this example salary, National Insurance contributions and Relevant Life policy payments are all treated as allowable deductions for the purposes of Corporation Tax.

Alex paying personally for life assurance

Monthly premium paid from his salary after deductions
= **£200pm**

Income before deductions needed to fund £200 at Income Tax rate of 40% and National Insurance at 2%.
= **£344.83**

Employer National Insurance contributions at 13.8% on this amount of salary paid by WBO Ltd.
= **£47.59**

Total cost to WBO Ltd and Alex
= **£392.41**

Less Corporation Tax at 20% 19% as an allowable deduction.

Total cost
= **£313.93** **£317.85**

Alex paying personally costs him and the business
WBO Ltd paying through a relevant life policy costs

A saving of **£153.93pm** **£155.85** or a saving of **over 49%** **almost 51%**

WBO Ltd paying for a relevant life policy

Monthly premium paid by WBO Ltd.
= **£200pm**

No Income Tax, employee or employer National Insurance payable.
= **£200.00**

No employer National Insurance contribution.

Less Corporation Tax at 20% 19% as the plan is an allowable deduction.

Total cost
= **£160.00** **£162.00**

£313.93pm **£317.85pm**

£160.00pm **£162.00pm**

Any advice given will be in line with current understanding of HMRC legislation and guidelines. Tax legislation may change in future, and there is no guarantee that the favourable tax position will apply in all cases, for example if the plan was taken poses.

