Relevant Life

General Guide

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Chartered Insurance Brokers

T.H. MARCH

INSURANCE BROKERS SINCE 1887

If you run your business as a limited company and would like your company to pay for life assurance to protect your family this may be for you.

What is it?

A straightforward term assurance policy on the life of the director (or employee), that will pay out (to his or her dependants) if they die within the term. The maximum term is to age 75. Premiums should be treated as a business expense for Corporation Tax purposes to the company.

Aviva are now offering Relevant Life which will pay out on death or earlier diagnosis of a critical illness. This is based on their interpretation of the legislation (see below) although other insurers, who only offer life cover, haven't yet taken the same view.

Why Do I Need It?

If you own your own company and you want to arrange life assurance to protect your family, this is more tax efficient than taking out the cover yourself and paying for it out of your own after taxed, after NI'd income.

How Much Can I Cover?

There is no legislative limit, but it should be reasonable, the life assurance companies normally limit the amount of cover you can have to 15 or 20 times your remuneration package, but if you are young you may be able to cover a higher income multiple. If you pay yourself a small salary and dividends, don't worry, dividends can be taken into account.

Who takes out the policy?

The company takes out the policy on the director's life. It is written in a trust and the director nominates beneficiaries. The company will be a trustee and it is sensible to appoint yourself as an individual and at least one other, it could be the beneficiary (spouse or partner).

What about tax?

The tax treatment is similar to a registered group scheme with the added advantage that benefits do not impact on the lifetime pension allowances.

Premiums should be a business expense for Corporation tax purposes and there won't be any benefit in kind to report on your P11D. The lump sum on death would normally be paid tax free.

What about health?

Expect to fill in a medical questionnaire and expect the insurer to ask your GP for a report. In some cases insurers ask the life to be insured to attend a full medical. These are normally paid for by the insurer. If you have any existing medical conditions or have suffered any in the past, it's your duty to disclose them. Don't be put off considering cover, we will talk to the underwriters. Many people will have (or will have had) similar conditions; the underwriters have lots of experience in dealing with most of what can affect us.

For Your Accountant

This is all possible under legislation set out in Section 393 of the Income Tax (Earnings and Pensions) Act 2003 (ITEPA) and Section 482 ITTOIA 2005. More information at the end.

Summary

If you want your business to protect your family give me a call on **01822 855 555**.

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Below is the detailed legislation that governs relevant life policies.

A "relevant life policy" is defined in subsection 393B(4) of the Income Tax (Earnings and Pensions) Act 2003 ("ITEPA") as:

(a) an excepted group life policy as defined in section 480 of Income Tax (Trading and Other Income) Act 2005,

(b) a policy of life insurance, the terms of which provide for the payment of benefits on the death of a single individual, and with respect to which:

> i) condition A in section 481 of that Act would be met if paragraph (a) in that condition referred to the death, in any circumstances or except in specified circumstances, of that individual (rather than the death in any circumstances of each of the individuals insured under the policy) and if the condition did not include paragraph (b), and
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> ii) conditions C and D in that section and conditions A and C in section 482 of that Act are met, or

(c) a policy of life insurance that would be within paragraph (a) or (b) but for the fact that it provides for a benefit which is an excluded benefit under or by virtue of paragraph (a), (b) or (d) of subsection (3) of ITEPA s.393B.

Therefore the conditions that need to be met if a policy is to be a relevant policy within the "single life" category set out in (b) are:

- Condition A in section 481 of the Income Tax (Trading and Other Income) Act 2005 ("ITTOIA") – that "under the terms of the policy a sum or other benefit of a capital nature is payable or arises on the death in any circumstances of [the individual] insured under the policy who dies under an age specified in the policy that does not exceed 75."

- Condition C in section 481 – that "the policy does not have, and is not capable of having, on any day:

> (a) a surrender value that exceeds the proportion of the amount of premiums paid which, on a time apportionment, is referable to the unexpired paid-up period beginning with the day, or

(b) if there is no such period, any surrender value."

- Condition D in section 481 – that "no sums or other benefits may be paid or conferred under the policy, except as mentioned in condition A or C".

- Condition A in section 482 of ITTOIA – that "any sums payable or other benefits arising under the policy must (whether directly or indirectly) be paid to or for, or conferred on, or applied at the direction of:

> (a) an individual or charity beneficially entitled to them, or
>
> (b) a trustee or other person acting in a fiduciary capacity who will secure that the sums or other benefits are paid to or for or conferred on, or applied in favour of, an individual or charity beneficially."

- Condition C in section 482 – that "a tax avoidance purpose is not the main purpose, or one of the main purposes, for which a person is at any time:

> (a) the holder, or one of the holders, of the policy, or
> (b) the person, or one of the persons, beneficially entitled under the policy."

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