

# Let the taxman help pay for your life cover



If you're a company director and you have life cover to protect your family, you could be paying more tax than you need to.

Relevant life policies are a way of providing death-in-service benefits on an individual basis no matter how small your business is.

## What are the benefits?

- These payments should be treated as an allowable expense for the company in calculating their tax liability, subject to the 'wholly and exclusively' rules
- Although the company makes payments, they're not treated as a benefit in kind, meaning a significant saving, particularly for a higher-rate taxpayer
- Unlike a registered group scheme, the benefit will not form part of your annual or lifetime pension allowance

## Who are relevant life policies suitable for?

- Small businesses that don't have enough eligible employees to warrant a group life scheme
- High-earning employees or directors who have substantial pension funds and don't want their benefits to form part of their lifetime allowance
- Self-employed or equity partners' staff

## What is the maximum amount of cover under a relevant life policy?

- You can apply for any amount of cover up to a general maximum of £5,000,000
- The maximum cover that will be accepted is 15 - 20 times your remuneration. This can include salary, regular dividends paid in lieu of salary and any benefits in kind

## 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

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## How a relevant life policy can cut tax on company cost

Payment		Ordinary Life Policy	Relevant Life Policy
		£1,000	£1,000
<b>Company Gross Cost</b>	Employee's National Insurance	£34	-
	Income tax @40%	£690	-
	Employer's National Insurance contribution @13.8%	£238	-
	Total Gross Cost	£1,962	£1,000
<b>Company Net Cost</b>	Corporation tax relief @20%	£392	£200*
<b>Net Cost</b>		£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 the life cover on an employee who is paying income tax at 40% and employee's National Insurance at 2% on the top end of income.

We have also assumed that the employer is paying corporation tax at the small company profit rate of 20% and will pay employer's National Insurance at the contracted in rate of 13.8%.

**For further information about this or to book an initial consultation with our preferred Independent Financial Adviser Glen Callow, please call us on 0121 711 6353**

Information given in this leaflet is for guidance only and should not be taken as individual advice. We cannot assume legal liability for any errors or omissions it might contain. Specific advice should be taken before acting on any of the guidance set out above. The details shown are based on our understanding of current taxation law and practice, the Finance Acts 2004 and 2005 and the Finance Bill 2011. These may be affected by future changes in legislation and the individual circumstances of the investor.