

Could your life cover be more tax-efficient?

Help protect your family and employees: tax-efficiently



AFP4BUSINESS

Independent Mortgage
Brokers & Protection Advisers

You're passionate about your family and business. So it's only right that you should want to help protect your loved ones and employees in the best way. A Relevant Life Policy could be the answer you're looking for. It can provide tax-efficient life cover for you, as a company director, and your employees - you can help safeguard the important people in your life.

Filling the life cover gap

A Relevant Life Policy might be right if:

- you are a company director and need life cover to protect your loved ones
- you would like to offer death in service benefits to your employees but your company doesn't have enough employees to warrant starting a company group scheme
- you need more life cover than your company's scheme provides.

Why Relevant Life Policies are tax efficient

As the company pays the premiums into a Relevant Life Policy, they're usually considered to be allowable deductions and not benefits in kind. This means:

- HM Revenue & Customs (HMRC) treats the policy premiums as business expenses – so they're likely to be an allowable deduction against Corporation Tax
- there's no National Insurance or Income Tax liability on the premiums for you and your employees
- the policy's benefits are paid tax free to the nominated beneficiaries
- the premiums don't form part of an individual's annual allowance for pension contributions
- the life cover benefits don't form part of an individual's lifetime allowance for pension savings – this potentially helps high earners with substantial pension funds avoid tax problems.

Are you concerned about exceeding the Lifetime Allowance?

Relevant Life Policy could provide the solution you seek, as its life cover won't form part of your lifetime allowance. And remember, as your company pays the premiums, HMRC usually considers them as an allowable deduction, and not benefits in kind.

Compare this to receiving life cover from a traditional company death-in-service scheme. The benefits paid would be included in your lifetime allowance at that time. If the benefits are paid as a lump sum, and takes you over the current lifetime allowance threshold of £1 million (tax year 2016/17), the excess may face a tax charge of 55%.

Comparing the costs

Here's an example of the cost someone might pay arranging their own life cover – compared to the cost of having the same cover through a Relevant Life Policy.

Mr A is a shareholding director of LBD Ltd. He pays £200 a month for his life cover from his salary after tax. As a higher rate taxpayer, he pays 40% Income Tax on the higher part of his salary. He also pays the extra 2% rate above the upper earnings limit for National Insurance.

In this calculation, we've assumed the premiums for his policy are taken from his higher marginal rate of tax. LBD Ltd pays employer's National Insurance contributions at the 'contracted in' rate of 13.8%. In the example salary, National Insurance contributions and Relevant Life Policy premiums are all treated as allowable deductions for Corporation Tax.

Mr A paying personally for life insurance

Monthly policy premium paid from his post tax income = **£200pm**

Pre-tax income needed to fund £200 at Income Tax rate of 40% and employee National Insurance at 2% additional rate = **£344.83**

Employer's National Insurance contributions at 13.8% on this amount of salary paid by LBD Ltd = **£47.59**

Total cost to LBD Ltd & Mr A = **£392.41**

Less Corporation Tax at 20% as an allowable deduction. Salary, Income Tax and National Insurance are allowable expenses against Corporation Tax.

Total cost to Mr A and LBD Ltd = **£313.93**

LBD Ltd paying for a Relevant Life Policy

Monthly policy premium paid by LBD Ltd = **£200pm**

No Income Tax, employee's or employer's National Insurance payable = **£200**

No employer's National Insurance contribution

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

Total cost to LBD Ltd = **£160.00**

Mr A paying personally costs him and the business £313.93pm
LBD Ltd paying through a Relevant Life Policy costs £160.00pm

A saving of £153.93pm or a saving of over 49%

We can help

Relevant Life Policies are not designed as a replacement to registered group schemes but they can be a very useful tax-efficient alternative, providing valuable death-in-service benefits for you and your employees.

Call today: Nigel Osgood – 01628 594433 (direct line)

Or

Email: nigel@afp4business.co.uk



AFP4BUSINESS
Independent Mortgage
Brokers & Protection Advisers

44 Broadway, Maidenhead, Berks SL6 1LU

www.afp4business.co.uk
www.afpmortgages.co.uk