

The tax advantages of a relevant life policy.

When deciding how to arrange life cover for an employee it's important to not only consider the payment, but the actual cost of providing the money for that payment.

Here we give you an example to show the effects of taxation on the true cost of providing the same net payment for an ordinary life policy taken out and paid for by the employee, compared to a relevant life policy taken out by their employer.

How a relevant life policy can cut tax on company costs

Payment		Ordinary life policy	Relevant life policy
		£1,000	£1,000
Company gross cost	Employee's National Insurance contribution @ 2%	£34	–
	Income tax @ 40%	£690	–
	Employer's National Insurance contribution @13.8%	£238	–
	Total gross cost	£1,962	£1,000
Company net cost	Corporation tax relief at 20%	£392	£200*
Net cost		£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 profits rate of 20% and will pay employer's National Insurance at the contracted in rate of 13.8%.

Using our relevant life policy to cover your employee instead of an employee-owned life policy could help your company save money.

You can apply for cover of up to 15x your remuneration up to £5,000,000

Protection doesn't need to be complicated. Bright Grey makes it easy.

Ordinary life policy

The example assumes that the employee is paying for the plan from their post-tax income. If the employer pays it will be treated as the employer meeting a pecuniary liability of the employee – that's when the employee has entered a contract to make the payments but the employer pays them for the employee. The employee is therefore liable to both income tax and employee's National Insurance contributions on the amount of the premiums.

The employer will normally be able to treat the gross cost as a trading expense, whether paid as salary, or if the payment has been made by the company.

Relevant life policy

There are no income tax or National Insurance liabilities for the employee. This is because it's the employer who has taken out the plan and the employee isn't responsible for making the payments.

As long as the local inspector of taxes accepts the payment has been incurred 'wholly and exclusively for the purpose of trade', the employer may be able to claim tax relief on the payment.

We've based the information in this example on our understanding of tax law and practice at the date this was published, so it may change. We suggest that you seek professional advice before you go ahead with any arrangement.

Additional support

To find out more about our relevant life policy, have a look at www.brightadviser.co.uk/business where you'll find our relevant life toolkit, reasons why and frequently asked questions.

phone us on
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visit

www.brightadviser.co.uk/business



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