

FOCUS ON

# Cost-effective life insurance for directors and high earners

If you are paying for life insurance personally, did you know that arranging it using what is known as a Relevant Life policy is more cost-effective?

## What is it?

Relevant Life Cover is tax-efficient life insurance for an individual that is taken out and paid for by their employer. It is treated as legitimate business expenses and therefore could reduce your corporation tax liability. This and other features mean that it is likely to be of particular interest to business owners and directors and high-earning employees.

## What are the benefits?

- The company pays the premiums, which are not assessed as a benefit in kind and so there is no need for the employee to include them on their income tax return.
- Relevant Life Cover is not taken into account when calculating the employee's national insurance contributions.
- Premiums may be treated as an allowable expense for the business when calculating its tax liability.
- The proceeds do not normally form part of an individual's estate for inheritance tax purposes, whereas normal life insurance does, unless it is written in trust.
- Proceeds from most normal death-in-service policies count towards an individual's lifetime pension allowance.

A sizeable payout could push someone currently well within the lifetime allowance over the limit, landing their beneficiaries with a 55% tax bill on the excess. Proceeds from Relevant Life policies do not count towards the lifetime pension allowance.

## Who is it likely to be of interest to?

- Directors and business owners who need life insurance, including those who are already paying for personal life insurance out of earned income.
- Small companies wanting to provide death-in-service benefits for certain key people but which might not want to or be able to pay the costs generally incurred when setting up a company
- group scheme, or don't have enough employees to do so.
- High-earning directors and employees who have life cover that may push them over the pension lifetime allowance should they die. Proceeds paid out by most company schemes generally count towards the lifetime allowance.
- People covered by a group life scheme who want to increase the amount of cover they have, as some schemes may not allow this.

## How much cover can a person have?

The amount of cover is usually based on a multiple of the person's remuneration (including salary, regular dividends paid in lieu of salary and benefits in kind). Although there are no stated statutory limits, the cover should be "reasonable" in relation to the person's circumstances in order to secure the favourable tax treatment.

Although there are no stated statutory limits, the cover should be "reasonable" in relation to the person's circumstances in order to secure the favourable tax treatment.

The remuneration multiple will depend on the person's age and options will vary depending on which insurance company is providing the cover but typically could be:

Age	Remuneration multiple
Under 40	30
Between 40 and 49	25
Between 50 and 59	20
60 and over	15

cover is usually subject to normal medical and financial underwriting, depending on the sum assured and the level of cover justifiable.

### What limitations are there?

- Relevant Life Cover is not available to people who are self-employed or equity partners.
- Once the policy is set up you can't change it.
- The policy pays the sum assured as a single lump sum if the person covered dies. Regular payments are not

possible. Cover is for an agreed duration and must end once the individual reaches the age of 75.

- Only death benefits (which can include terminal illness) can be provided, in contrast to some life insurance contracts which can also include critical illness cover.
- Proceeds must be paid through a discretionary trust (usually supplied by the insurance company providing the cover).
- Beneficiaries are normally restricted to family members and dependants.

### How much could you save each year?

	Life insurance paid by an employee from net salary	Relevant Life Policy paid by the company out of untaxed revenue
<b>Cost to the employee</b>		
Annual premium	£1,000	£0
National Insurance	£34.48	£0
Income Tax at 40%	£34.48	£0
Income Tax at 40%	£1,724.14	£0
<b>Cost to the employer</b>		
Cost to the employer	£0	£1,000
National Insurance	£237.93	£0
Corporation tax saved	£0	£0
Total cost to employer	£237.93	£800
Total cost	£1,962.07	£800

Amount saved by using a relevant life policy = £1,162.07 or 69%

\* 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 employer's National Insurance at the contracted rate of 13.8%. Based on our understanding of tax law and practice as at 1 April 2016, so it may change.

### Find out more

To find out whether you and your business could benefit from a Relevant Life policy please contact your MHA Wealth Management independent financial adviser or your usual accountancy contact at MHA MacIntyre Hudson.



Visit our website:  
[www.macintyreHUDSON.co.uk](http://www.macintyreHUDSON.co.uk)

MHA MacIntyre Hudson is the trading name of MacIntyre Hudson LLP, a limited liability partnership, registered in England with registered number OC312313. A list of partners' names is open for inspection at its registered office, 201 Silbury Boulevard, Milton Keynes MK9 1LZ. Registered to carry on audit work in the United Kingdom and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales. An independent member of MHA, a national association of UK accountancy firms. The term 'partner' or 'partners' indicates that the person (or persons) in question is (or are) a member(s) of MacIntyre Hudson LLP or an employee or consultant of its affiliated businesses with equivalent standing and qualifications. Partners and directors acting as administrators or administrative receivers contract as agents and without personal liability. Further information and links to the respective regulators and appointed individuals' qualifications can be found via our website [www.macintyreHUDSON.co.uk/information.html](http://www.macintyreHUDSON.co.uk/information.html)

MHA MacIntyre Hudson is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. MHA MacIntyre Hudson is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, MHA MacIntyre Hudson, nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. Arrandco Investments Limited is the registered owner of the UK trade mark for Baker Tilly and its associated logo.