

# Introducing: The Relevant Life Policy Trust



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## **A tax efficient way for limited companies to provide family protection for their owners and employees.**

Life insurance is a vital part of financial planning, with the key objective being family protection and financial security, so identifying the right policy is crucial to ensure it is the best fit for you and your personal family circumstances.

Many limited companies opt to pay life insurance for their directors and in some cases offer this as a benefit to employees. However, life insurance is treated in most cases as a benefit in kind, meaning it is subject to both income tax and national insurance deductions for the company, director and employee.

With recent changes in legislation this has seen the launch of the 'Relevant Life Policy Trust' by many of the UK's leading life assurance providers. The Relevant Life Policy Trust provides an alternative tax efficient way of providing

life insurance for limited companies. It also offers an alternative to Death in Service benefits for the smaller company which does not have enough eligible employees to warrant a group life scheme.

High-earning employees or directors who have substantial pension funds and do not want their benefits to form part of their lifetime allowance will also find Relevant Life Policies beneficial.

### ***Tax Advantages***

Typically, an individual will pay personal premiums for life insurance out of their net income after paying national insurance and income tax. The Relevant Life Policy Trust is different – premiums are paid for by the company and not the individual and are normally classed as an allowable business expense, not a benefit in kind which makes them exempt from those deductions.

In addition, Corporation Tax relief is also available on the premiums.

The benefits of the policy when paid out on death to a nominated beneficiary are also free of Income Tax.

### ***How does it work?***

The policy must be set up on a single life basis for an individual.

It offers life assurance only, including terminal illness, but not critical illness.

The policy must end before age 75.

The plan can only be effected by employers for their employees, therefore directors of a company, including shareholding directors, are treated as employees for this purpose.



## How a Relevant Life Policy Can Cut Company Costs

### Ordinary Life Assurance Policy

Alan Jones, a shareholding director of XYZ Ltd, currently pays £200 per month for his life assurance, out of his net income.

• Monthly Premium	£200.00
• Pre Tax Income to fund £200, based on Income Tax at 40% and National Insurance at 2%	£344.83
• Cost with employers NI contributions at 13.8% on his salary	£392.41
• Gross salary and NI are allowable deductions against corporation tax at 20%	
• Total monthly cost to Alan Jones and XYZ Ltd	£313.93

*(Figures based on HMRC Tax and NI rates applicable as at 21.11.2011)*

### Relevant Life Policy

XYZ Ltd pays the premiums through a relevant life policy

• Monthly Premium	£200.00
• No employee Income Tax or National Insurance	
• No employer National Insurance	
• Relevant life policy is an allowable deduction against corporation tax at 20%	
• Total cost to XYZ Ltd	£160.00
• <b>Cost to Alan Jones and XYZ Ltd paying personally</b>	<b>£313.93</b>
• <b>Cost to XYZ Ltd paying through Relevant Life Policy Trust</b>	<b>£160.00</b>
• <b>SAVING</b>	<b>£153.93 or 49%</b>

*(Figures based on HMRC Tax and NI rates applicable as at 21.11.2011)*

The Relevant Life Policy Trust could be highly advantageous to smaller companies. If you would like more information about the policy to determine if it is right for you and your business, please contact Nigel Cruikshanks on 028 9044 5100 or email [ncruikshanks@harbinson-mulholland.com](mailto:ncruikshanks@harbinson-mulholland.com)

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