FINANCE UPDATES

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CAMPBELL & McCONNACHIE

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PROTECTION WITH RELEVANT LIFE COVER

Tax-efficient insurance for business owners.

Arranging relevant life cover can save money for business owners and their staff. As an employer, you want to ensure your employees have the benefits needed to incentivise them to join your business and stay, and there is arguably no benefit more important than a good life cover plan.

If you're looking to offer your employees such a plan, you might be thinking how to get the best for your money. One of the best ways to save is to invest in a relevant life cover policy, which can save companies up to 50% of the costs.

This policy is also hugely beneficial to your employees, while directors can take advantage of it to pay for their cover through the business.

We'll go into more detail on some of the advantages of relevant life cover, but first, let's look at the specifics of the plan.

WHAT IS RELEVANT LIFE COVER?

Relevant life cover offers a cost-effective way for employers to arrange life protection on an employee's life through the use of a discretionary trust.

It is only payable to an employee's or director's family, or financial dependants upon death or the diagnosis of a terminal illness. The premiums are wholly paid for by the employer.

Any employee or director of a limited company, partnership, charity or sole trader can be protected by this type of policy. However, you should double check this with the provider as some do not cover sole traders or equity partners where they are taxed under Schedule D.

Relevant life cover may be more suited to businesses that are too small for a group life scheme, have high-earning employees who might exceed their personal pension lifetime allowance if the cover was provided as part of the pension scheme, or have group scheme members who want to top up their benefits.

HOW DOES IT WORK?

Upon the death or diagnosis of a terminal illness of the person insured, the company pays out a tax-free lump sum to the employee's family or dependants.

There is usually no minimum amount of cover, with the maximum cover generally set at £10 million. The minimum and maximum term, on the other hand, is typically around five and 50 years respectively.

The policy must also be written into a discretionary trust with the employee's family or dependants as beneficiaries.

Beneficiaries must either be individuals or a charity, so the trust money cannot be assigned to a mortgage lender, for example.

If the policy is not written into trust and the beneficiaries are not individuals, it won't fulfil the requirements for a relevant life cover policy, which could leave you with hefty tax obligations.

HOW RELEVANT IS IT TO EMPLOYERS?

The key difference between relevant life cover and regular life insurance boils down to how relevant life policies are owned and paid for by the business rather than an individual, who would pay for it after both tax and National Insurance contributions (NICs).

With relevant life cover, employees don't have to make any extra contributions, and as HMRC classes relevant life cover as a business expense it doesn't represent a benefit-in-kind.

Not only does this save the company corporation tax, but no employer or employee NICs have to be paid on the premiums as long as they are paid "wholly and exclusively for the purposes of the trade", as business expense rules stipulate.

Furthermore, as relevant life policies are written into a relevant life trust for the beneficiaries, they also escape inheritance tax, because a payment in a trust never becomes part of the deceased's estate.

Considering that company directors can be included, this offers considerable savings at both a personal and corporate level.

Benefits for businesses aren't just tax related.

As relevant life cover can be hugely beneficial for employees themselves (see below), then such a policy can be a great way to reward and retain valued workers, partly because you can tailor the cover to your employees.

Note that this product is best for businesses looking to provide a benefit to employees in a tax-efficient manner.

If you are specifically looking to protect your business's financial safety, consider other products that might be best for you, including key person insurance and shareholder protection insurance. We can help you figure out what is right for you.

BENEFITS FOR EMPLOYEES

It's not that relevant life cover only has employers in mind; it would be hugely beneficial to your employees as well.

Considering the payments into trust are not part of the deceased's estate for inheritance tax purposes, it is perfect for an employee with an already large estate.

Relevant life cover also sits outside of an employee's pension provision, which is very beneficial from a tax standpoint compared to standard death-in-service benefits.

This is because older death-in-service arrangements are generally classed as a pension benefit for tax purposes and are added to an employee's pension savings.

This means a payout could easily tip a person's pension over the lifetime allowance (£1,073,000 for 2021/22), subjecting the excess to a 55% penalty tax.

This scenario does not apply to 'excepted group life policies', which sit outside of a pension scheme and have become more popular in recent years because of the lifetime allowance cap.

Relevant life cover also pays one cash lump sum on death during the term of the policy. Any life plan is enacted upon the death of a loved one, so bereaved beneficiaries shouldn't have to argue about tax issues, let alone getting all the money upon death, which a relevant life cover policy can deliver.

It's also a convenient plan for an employee during their life, as there are no extra costs attached. Should they leave the business, they can take over the premium payments to maintain their level of cover if they wish.

WHO CAN GET COVER?

Cover is open to any employee of a business, including directors who are on payroll, which is a valuable tax benefit if a director's life insurance premiums are paid for by the company.

Unfortunately, relevant life cover is typically not open to sole traders or business partnerships.

In most cases, the insured person must be aged between 17 and 69 to qualify, while the policy will usually end before they reach the age of 75.

Requiring medical underwriting, relevant life policies are most suitable for people who stay with the business for a long time – a good option for high earners or those with large estates.

ARRANGING COVER

The best place to start if you are interested in getting life cover policies is to speak to us about arranging the best cover tailored for your employees and business.

Get in touch to arrange cover at the right price.

IMPORTANT INFORMATION