

# 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 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 @ 1%	£17	-
	Income tax @ 40%	£678	-
	Employer's National Insurance contributions @12.8%	£217	-
	Total gross cost	<b>£1,912</b>	<b>£1,000</b>
Company net cost	Corporation tax relief at 21%	£402	£210*
Net cost		<b>£1,510</b>	<b>£790*</b>

\*Assumes that corporation tax relief at 21% has been granted under the 'wholly and exclusive' 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 1% on the top end of income. We have also assumed that the employer is paying corporation tax at the small companies' rate of 21% and will pay employer's National Insurance at the contracted in rate of 12.8%.

**Using our unique relevant life policy to cover your employee instead of a life policy could help your company to save money.**

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

## Ordinary life policy

For the employee the payment made by the employer 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 so to provide the net payment this amount must be grossed up by the amount of tax and National Insurance payable.

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

For the employee no income tax or National Insurance liabilities arise. This is because it's the employer who has taken out the plan and the employee is not 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.

## If you'd like to know more about taking out a relevant life policy, please contact me.

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.